ASSESSMENT OF DEMAND AND SUPPLY OF SMALL AND MICROCREDIT IN THE WEST BANK AND GAZA UNDER CURRENT POLITICAL SITUATION (INTIFADA)-AN UPDATE OF WEIDEMANN REPORT

PREPARED FOR:

BUILDING A MICRO FINANCE INDUSTRY IN THE WEST BANK AND GAZA PROJECT
(ISAMI)
THE US AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

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I. INTRODUCTION

The ISAMI project aims at establishing a sustainable micro finance industry in the West Bank and Gaza. The goal is to enhance the potential for rapid growth of microlending, and to make the availability of this product and other related financial services a permanent and sustainable feature. Therefore, it is important to make all necessary elements and resources available to build a firm base for such an industry.

The ISAMI project is assisting lenders of microcredit in their efforts to build sustainable micro finance activities through various components of technical assistance program. Part of this assistance is to make available up to date information on market demand and supply in order to better strategize and accommodate to the micro finance market developments.

There has been much debate about the demand and supply of microcredit in the last year since the beginning of the Intifada. Some argue that because of the political situation and as result of the economic deterioration, demand for loans has substantially decreased. On the other hand, others believe that due to increased risk in the business environment, MFIs and banks became much more conservative in their lending policies, which resulted in fewer loans to small and micro businesses. Therefore, ISAMI envisions that a comprehensive market survey of small and micro businesses as well as the supply of credit available to them is essential in order to help better planning and implementation of credit programs.

1. Objectives

The general objective of this study is to provide insights about current conditions of the micro finance activities, both supply and demand. The ultimate objective is to provide the ISAMI project with analytical instruments that can be used to assist micro finance providers to refine their current strategies and adjust to current and future developments. The findings of this study should enable ISAMI to better address market needs. The specific objectives of the study are:

- ***Demand:***

    - ❖ Assess current and potential demand for micro and small loans among various sectors and lines of businesses in the West Bank and Gaza including manufacturing, trade, services and agriculture. Define profile of prospective business customers in terms of gender, line of business, number of employees, investment size, working capital, credit history, purpose of loan and others.
    - ❖ Assess demand characteristics in terms of loan size required, seasonality, growth, and sensitivity to various factors, and concentration in various economic sectors.
    - ❖ Assess businesses' opinions and preferences in terms of preferred loan features such as size, price and loan term.
    - ❖ Assess businesses' problems under current political turmoil.

- Assess obstacles and difficulties of accessing loans.

- ***Supply:***

- Assess the degree of credit penetration by various microcredit providers.
- Did the demand for loans decrease during the current situation? If yes, is it because lenders are more conservative? Or is it because there is no need for credit?
- Assess current supply of small and microcredit available to small and micro businesses both from commercial banks and NGOs including number of borrowers, loans outstanding, loan features, future plans and constraints on portfolio expansion.
- Assess availability of funds allocated for small and micro businesses by sector, when possible.
- Assess policies and procedures of credit suppliers that may hinder access to capital by small and micro businesses.
- Assess banks' and NGOs' perspectives on what types of problems they face in providing loans to small and micro businesses.
- Analyze terms and conditions of existing loan products available in the market.

2. Methodology

A. Sample size and selection

The sample size is 687 establishments distributed between the West Bank and Gaza Strip and covers all four major sectors of activity: agriculture, trade, manufacturing and service. It also ensures sufficient representation of women. A full discussion of the methodology and sampling is included in Annex 1.

B. Questionnaire design

1. Open-ended questionnaires: this questionnaire was designed to be directed to managers of micro finance institutions and program managers at commercial banks. See annex 2
2. Close-ended questionnaire: this was designed to be directed to managers of micro and small businesses in various sectors. The questionnaire for the survey on the demand for credit among micro entrepreneurs was developed based on a previously tested model and then revised in consultation with ISAMI management. Thereafter, it was pretested and then revised into its final form. See annex 3.

C. Survey administration

1. The survey was administered to key NGOs (mainly UNRWA, ACAD, FATEN, ANERA, ASALA, YMCA, PARC and others) and commercial banks involved in microlending to micro and small businesses as described above. A list of MFIs and banks are enclosed in Annex 4.
2. A randomly selected sample of micro entrepreneurs operating in the West Bank and Gaza (WBGS) was selected as described above. The field (survey) work was conducted in August, September and October 2001 by a team of 15 Enumerators (in the West Bank and in Gaza).

II. DEMAND SURVEY RESULTS

The following section provides a complete description and analysis of the survey results pertaining to demand for credit. It presents major findings, quantitative and qualitative, of the current demand for credit and its characteristics.

1. Demographics, business characteristics and credit

A. Respondent Characteristics

All respondents are owners of small businesses that employ fewer than ten employees. Both male and female business owners were interviewed with more representation for women entrepreneurs in the survey than its actual representation in the business population (it is believed that women businesses constitutes about 9% of businesses in Palestine). The rationale behind this overrepresentation is that there are several credit programs targeting women's projects in the WBGS, in addition to ensure maximum coverage of lines of businesses run by women.

Table 1: Gender

Description	Frequency	Percent
Male	561	81.7
Female	126	18.3
Total	**687**	**100.**

Respondents' level of education varies from literacy, basic school to university with the most having secondary or high school or technical school. The distribution of levels of education among respondents reflects various levels of education and thus provides some fair distribution of all segments in the Palestinian society.

Table 2: Level of Education

Education	Frequency	Percent
No formal school	26	4
Primary	194	28
Secondary School or high school or technical school	287	42
University	151	22
Other	29	4
Total	**687**	**100**

B. Business Characteristics

Businesses investigated include all sectors and most lines of businesses as indicated below. Most businesses are in trade and manufacturing and type of business covers a wide range of lines such as wearing apparel, metal works, food and beverages in manufacturing, retail in trade, restaurants and hair dressing in services and livestock, fruits and vegetables and fishing in agriculture. Traditional formal and informal women businesses are concentrated in the food, textile, handicrafts, poultry, livestock, mini shops/clothing, vegetable vendors and hairdressers.

Slightly less than two-thirds of businesses rent their place of business while the majority resides at their business places reflecting the familial and traditional nature of businesses in Palestine.

Table 3: Own or rent the business place

Holding Type	**Frequency**	**Percent**
Freehold	238	35
Leasehold	449	65
Total	**687**	**100**

Table 4: Business place is place of residence

Response	**Frequency**	**Percent**
No	186	27
Yes	501	73
Total	**687**	**10.0**

The majority of businesses (83 percent) operate throughout the year. An insignificant percentage of businesses operates for less than half of the year. This indicates the permanent type of establishments operating in Palestine.

Table 5: Number of working months during the year

No. Of Months	**Frequency**	**Percent**
1-3 months	8	1
4-6 months	28	4
7-9 months	84	12
10-12 months	566	83
Total	**686**	**100**

Businesses interviewed also vary in terms of years in business reflecting a wide range of experience in the business place. While 22 percent have been in business for a short period of time (three years), 28 percent have been operating for more than 15 years. Fifty percent of these businesses age from six to 15 years.

Table 6: Age of businesses (year)

Age of business/Years	Frequency	Percent
3	153	22
6	140	20
9	103	15
12	74	11
15	25	4
> 15	192	28
Total	**687**	**100**

Only 44 percent of these businesses have bank accounts indicating the simplicity and the limitations of the majority of small and micro business operations in the WBGS. While a significant proportion has bank accounts, a smaller percentage of respondents (15 percent) have deposit and saving accounts.

Table 7: Have bank account

Response	Frequency	Percent
Yes	303	44
No	384	56
Total	**687**	**100**

Table 8: Deposit and saving accounts

Description	Frequency	Percent
Yes	101	15
No	586	85
Total	**687**	**100**

More than one-third of businesses interviewed own land and two-thirds own a house or a commercial building. Very few respondents (6 percent) invest in market securities and many (40 percent) own some kind of asset such as jewelry and vehicles.

Table 9: Own shares in the stock market

Description	Frequency	Percent
Yes	41	6
No	646	94
Total	**687**	**100**

Table 10: Own jewelry, vehicles or other valuable assets

Description	Frequency	Percent
Yes	280	40
No	389	57
No Answer	18	3
Total	**687**	**100**

The overwhelming majority (91 percent) of businesses interviewed employed five or fewer at the onset of starting the business, including the owner of the business. For the same businesses, the number of workers increased over time reflecting growth and expansion until Sept. 2000, the onset of the Al-Aqsa Intifada, where the percentage of businesses which employ fewer than five including the owner of business decreased to 86 percent compared to 91 percent at the start of these businesses. This percentage increased significantly to 94 percent during the time of Intifada indicating shrinking business operations and lay offs of employees. In other words, businesses which employ six employees and above, including the owner was nine percent at the start of business, increased to 14 percent until Sept. 2000 and then declined to six during the Intifada as indicated in the following table:

Table 11: Number of workers including owners over time

No. of Workers	Period					
	At start		**September, 2000**		**Current**	
	F*	**P**	**F**	**P**	**F**	**P**
1	212	31	189	28	253	37
2	203	30	187	27	208	30
3	104	15	98	14	84	12
4	67	10	73	11	57	8
5	37	5	37	5	45	7
6 +	63	9	96	14	40	6
Total	**686**	**100**	**680**	**100**	**687**	**100**

* F: Frequency, P: Percent

C. Credit History

1. Primary source of financing at the start up phase

The availability of credit and lending programs through formal institutions is very recent in Palestine. The banking sector as well as NGO lending programs formally started lending activities at the beginning of the last decade. Prior to that there were some NGOs offering credit services to the small and micro businesses with limited coverage and focus. After the Oslo Accord in 1993, many banks and NGOs initiated various lending programs with the support and subsidy of international donors. Given this background, lending was not really available to Palestinian entrepreneurs who wanted to establish a new business or expand activities. Therefore, most of them were seeking private, family or informal sources of funding.

Nevertheless, with the existence of various bank and NGO credit activities targeting small and micro businesses, the outreach and access to credit is still limited as the results of this survey demonstrate. The primary source of financing for starting the business is personal savings (67 percent). Loans accessed through family, banks, moneylenders, suppliers, NGOs and other financial institutions do not exceed 16 percent of total primary financing of start up business. Only six percent had accessed loans from banks, NGOs and financial institutions when they started their business as indicated in the following table:

Table 12: Primary source of financing when starting the business

Source of Financing	**Frequency**	**Percent**
Personal savings	457	67
Gifts or inheritance	52	8
Loans from family	**51**	**7**
Middleman, suppliers, trade credit	**16**	**2**
Money lender	**7**	**1**
Financial institution	**14**	**2**
Bank	**18**	**3**
NGO	**8**	**1**
Other sources	4	1
Total	627	91
No answer	60	9
Total	**687**	**100**

However, the percentage of those who accessed loan regardless whether it was primary or secondary sources increased to 19 percent.

Table 13: Accessed loans as primary and secondary sources for financing at start up

Response	**Frequency**	**Percent**
Yes	122	19
No	505	81
Total	**627**	**100**

2. Sources of financing at the start up phase

The total investment injected at the start up phase in all businesses interviewed is approximately 11 million US dollars of which around eight million dollars were from personal savings. Hence, the average size of investment from all sources at the start up phase is approximately 16,000 US dollars (11 million/687). The following table delineates the source and size of funding at the start up phase of businesses interviewed:

Table 14: Sources of financing in dollars (at the start up phase)

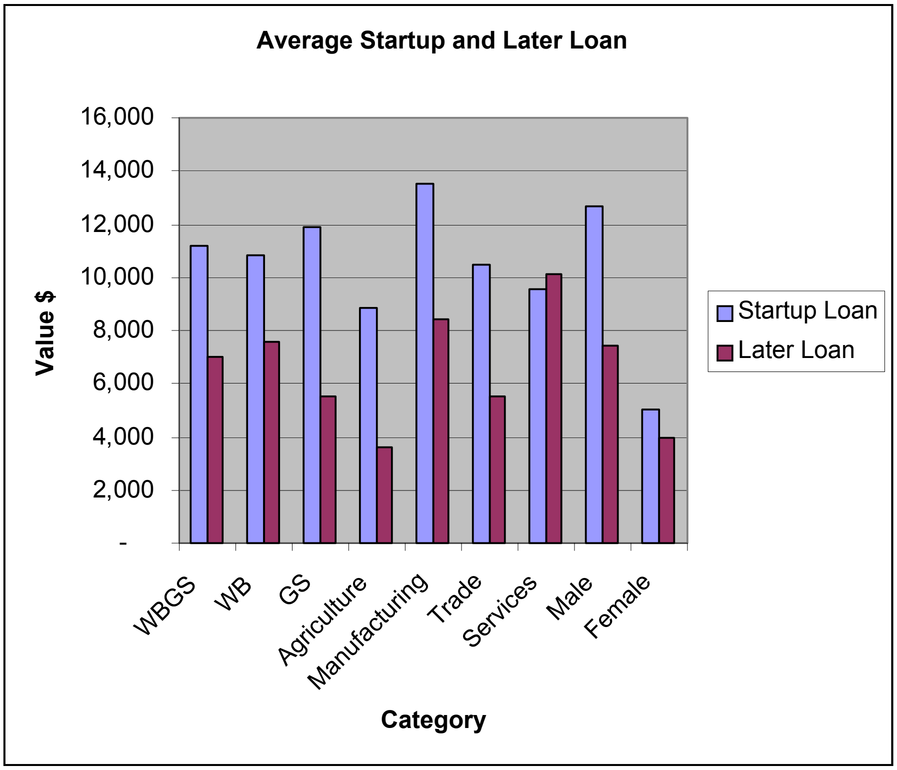
Statistics	**Savings**	**G/I**	**Family**	**M/S/T**	**M**	**F**	**Bank**	**NGO**	**O**	**Total**
Average loan	15,367	11,293	10,170	19,654	8,428	12,809	9,493	11,673	20,937	
Number	527	80	70	34	7	16	22	15	4	775
Total	8,098,415	903,500	711,900	668,250	59,000	204,950	208,850	175,100	83,750	11,113,715
Percent of Total	73	8	6	6	1	2	2	2	1	100

* G/I: Gifts or inheritance, MST: Middleman, Suppliers, or Trade credit, M: Money lender, F: Financial institution, O: Other Sources

Understanding the implications of the credit history of the respondents to this survey requires remembering again that formal loans have not been widely available until recently and that, even in 1993, there were only two Arab banks and no tradition of loaning to the micro enterprise sector. Since more than half the sample started their business before 1995, it is not surprising that few of them used loans from any formal sector establishments such as banks, financial institutions or NGO loans for the start up of their enterprises. Thus credit of any kind was not a major factor enabling them to start up or acquire their businesses.

3. The average loan size when started the business

The loan size varied according to sector and gender as shown in the following figure:



The average loan size at the start up ranged from $8,500 to $14,000 according to sector. Loans obtained by males were much higher than those issued to females. Manufacturers obtained the largest loans on average. Subsequent loans were smaller than the start up loans. The average ranged from $2,500 to $10,000.

4. Repayment period
Whereas most loans were obtained from family sources at the start up phase, it is not surprising that most loan terms were of medium to long term as indicated below.

Table 15: Repayment period for the largest loan at the start up phase

Period	Frequency	Percent
Less than 3 months	2	2
From 3 to 6 months	7	7
From 7 to 12 months	16	16
From 13 to 24 months	28	28
From 25-36 months	19	19
More than36 months	30	29
Total	**102**	**100**

5. Collateral and guarantees
As far as the collateral required guaranteeing the start up loan, it is evident that family loans do not require collateral as they are given for social reasons. However, commercial lending is generally collateral based lending and requires that a borrower should secure some asset to guarantee payment or bring guarantors who are acceptable to the bank or the NGO. The most common used guarantee in Palestine, as the results support, is guarantors with good reputation.

Table 16: Collateral required at the start up loan

Collateral	Frequency	Percent
No collateral	52	50
Title of property	15	14
Savings account	3	3
Guarantee of repayment by relative or other	27	26
Jewelry, vehicle or other valuable asset	2	2
Other	5	5
Total	**104**	**100**

6. Access to loans after the start up phase
The results of the survey indicate that 13 percent of businesses interviewed had access to loans to finance their existing businesses compared to 16 percent when started the business. Bearing in mind that most businesses borrowed from family sources when started the business, existing ones would seek other sources to finance their operations. In addition, most business owners do not know that they can borrow from MFIs and from banks. This may explain the percentage decrease in accessing loans for existing businesses. It is notable that lending from banks and NGOs has increased significantly where about 10 percent out of the 13 percent of existing businesses, which obtained later loans, were from banks and NGOs. NGOs credit sources constituted the largest

source (39 percent) for credit but the lowest in terms of average loan size ($4,476). Banks credit sources ranked the second (36 percent) with an average loan size of $9, 353. Family sources continued to be an important source of credit where 14 percent accessed family money with an average loan size of $7,458.

Table 17: Loans accessed after the start up phase

Financing Source	Frequency	Percent of total	Percent	Average (USD)	Sum (USD)
Loans from family	12	2	14	7,458	89,500
Middleman, suppliers, trade credit	3	0.4	3	2,000	6,000
Money lender	1	0.1	1	20,000	20,000
Financial institution	3	0.4	3	11,766	35,300
Bank	32	5	36	9,353	299,300
NGO	35	5	39	4,474	156,600
Others	3	0.4	4	5,933	17,800
Total loans	**89**	**13**	**100**	**7,0165**	**624,500**
Extremes (large loans)	4	0.5			
Did not take loans	594	86.5			
Total	**687**	**100**			

7. Problematic loans

The overwhelming majority of businesses are severely affected by the consequences of the Israeli measures and restrictions imposed on movement of people, money and goods within the West Bank and Gaza and between these areas and the rest of the world. Businesses experienced serious cash flow problems as a result and as such were unable to meet their short-term liabilities. About two-thirds of respondents indicated that they have overdue loan payments and are unable to pay as shown in the following table:

Table 18; Businesses having unpaid loans

Response	Frequency	Percent
Yes	62	67
No delayed payments	30	33
Total	**92**	**100**

Businesses who have problems repaying their loans provided various reasons for this failure. The majority (72 percent) stated that the political situation was the primary reason for not paying their due loan payments. Others (seven percent) indicated that their business experienced serious collapse and were unable to meet their obligations. A significant proportion (20 percent), however, did not specify certain reasons for not paying back the loan.

Table 19: Reasons for having unpaid loans

Reason	Frequency	Percent
Personal reasons	1	1
Business failure	4	7
External tense situation	44	72
Other	12	20
Total	**61**	**100**

In summary, this survey confirms what earlier studies have shown: that credit from any source other than family has not been a common factor in the start up and maintenance of most micro enterprises. Given political instability, market fluctuations and the absence of formal credit available to this sector in the past, lack of start up credit from any formal institution is not surprising. It is, however, notable that obtaining loans from banks and NGOs for existing businesses increased, the situation has not turned around despite the large increase in numbers of banks and financials institutions and NGOs with lending programs available to micro entrepreneurs.

2. Implications of current situation on businesses

The current political situation has severely affected economic activities in the West Bank and Gaza. Many business operations were forced to either shut down or reduce operations. Very few businesses were able to maintain their previous scale of operations. The following two tables provide insights about the situation during August and September of 2001 (during the Al Aqsa Intifada) and prior to September 2000 (prior to the Intifada).

A. Capacity utilization

Table 20: Current capacity utilization

Utilized Capacity %	Frequency	Percent	Mean	Std. Error of Mean %
0-25	203	30	16	0.4
26-50	270	39	39	0.5
51-75	149	22	61	0.5
76-100	62	9	95	1
Total	**684**	**100**	**42**	**0.9**

Table 21: Capacity utilization prior to September, 2000

Utilized Capacity %	Frequency	Percent	Mean %	Std. Error of Mean %
0-25	13	2	20	1.3
26-50	75	11	42	0.9
51-75	169	25	76	0.4
76-100	410	62	89	0.4
Total	**667**	**100**	**77**	**0.8**

These results clearly demonstrate the severe deterioration of business activities during the Intifada. Today, 69 percent of small and micro businesses utilize less than 50 percent of their capacity, with an average of 35 percent (compared to only 9.5 percent of businesses prior to Intifada). While only nine percent of businesses utilize more than 75 percent of their capacity these days, 62 percent of these businesses utilized more than 75 percent of their capacity prior to the Intifada. Nevertheless, as the results suggest that the capacity utilization of about nine percent is above 75 percent with a mean of 95 percent, the demand for credit would most likely to come from this segment and that the demand for loans by existing enterprises for expansion under current conditions might be very small. Under current conditions, any demand for credit would most likely come from the need to finance existing operations rather than the expansion of existing enterprises.

B. Sales

As a result of the political and economic deterioration, business activities declined. The vast majority (94 percent) of businesses reported significant sales decline. Only two cases out of the 687 businesses interviewed reported increase in sales while only six percent indicated that their sales did not change.

Table22: Changes in sales during the Intifada

Change	Frequency	Percent
Decreased	641	94
Increased	2	0
Didn't change	39	6
Total	**682**	**100**

Prior to the onset of the Al-Aqsa Intifada in September 2000, 69 percent of small and micro businesses used to generate an average of $2,040 monthly sales compared to 90 percent of businesses generating an average monthly sales of $1,249 during the Intifada. This substantial decrease in sales and production may have an impact on the demand for credit both in quantity and money.

Table 23: Monthly sales prior to September 2000 (Intifada) in USD

Sales	Frequency	Percent	Mean	Std. Error of Mean
0-1,500	227	37	824	28
1,501-5,500	194	32	3,466	86
5,501-10,500	96	16	8,083	152
10,501-15,500	36	6	13,791	254
15,501-20,501	15	2	19,433	266
20,501-25,500	13	2	24,288	381
25,501-30,500	9	2	29,666	333
30,501- 40,500	5	1	39,000	1000
>40,500	20	3	170,000	48942
Total	**615**	**100**	**10,733**	**1968**

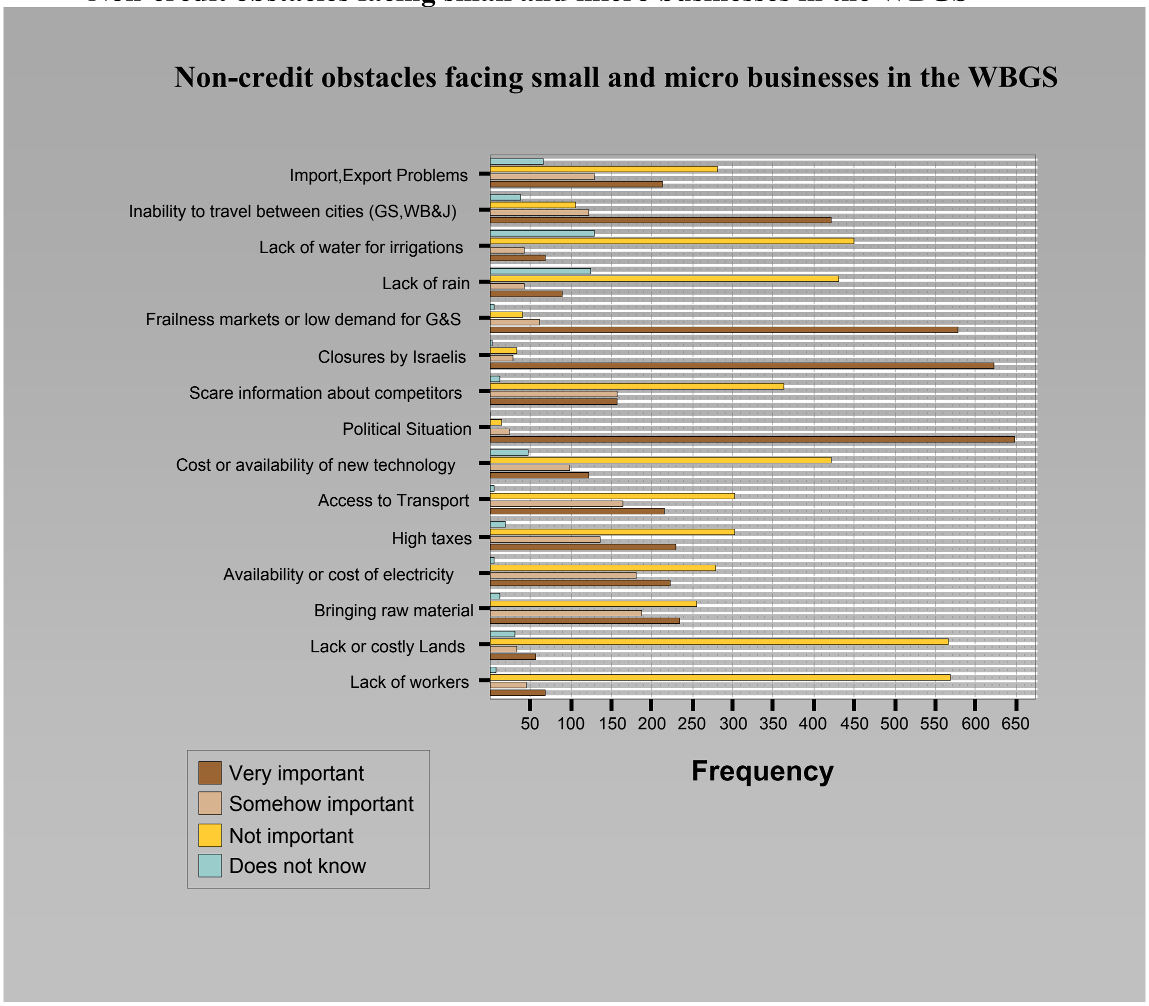
Table 24: Monthly sales during the Intifada (USD)

Sales	Frequency	Percent	Mean	Std. Error of Mean
0-1500	417	66	591	20
1501-5500	150	24	3231	97
5501-10500	33	5	8143	291
10501-15500	10	2	13725	480
15501-20501	9	1	19666	333
20501-25500	2	0	24500	500
25501-30500	1	0	30000	0
30501- 40500	2	0	40000	0
>40500	5	1	85000	29410
Total	**629**	**100**	**3018**	**398**

C. Obstacles and constraints

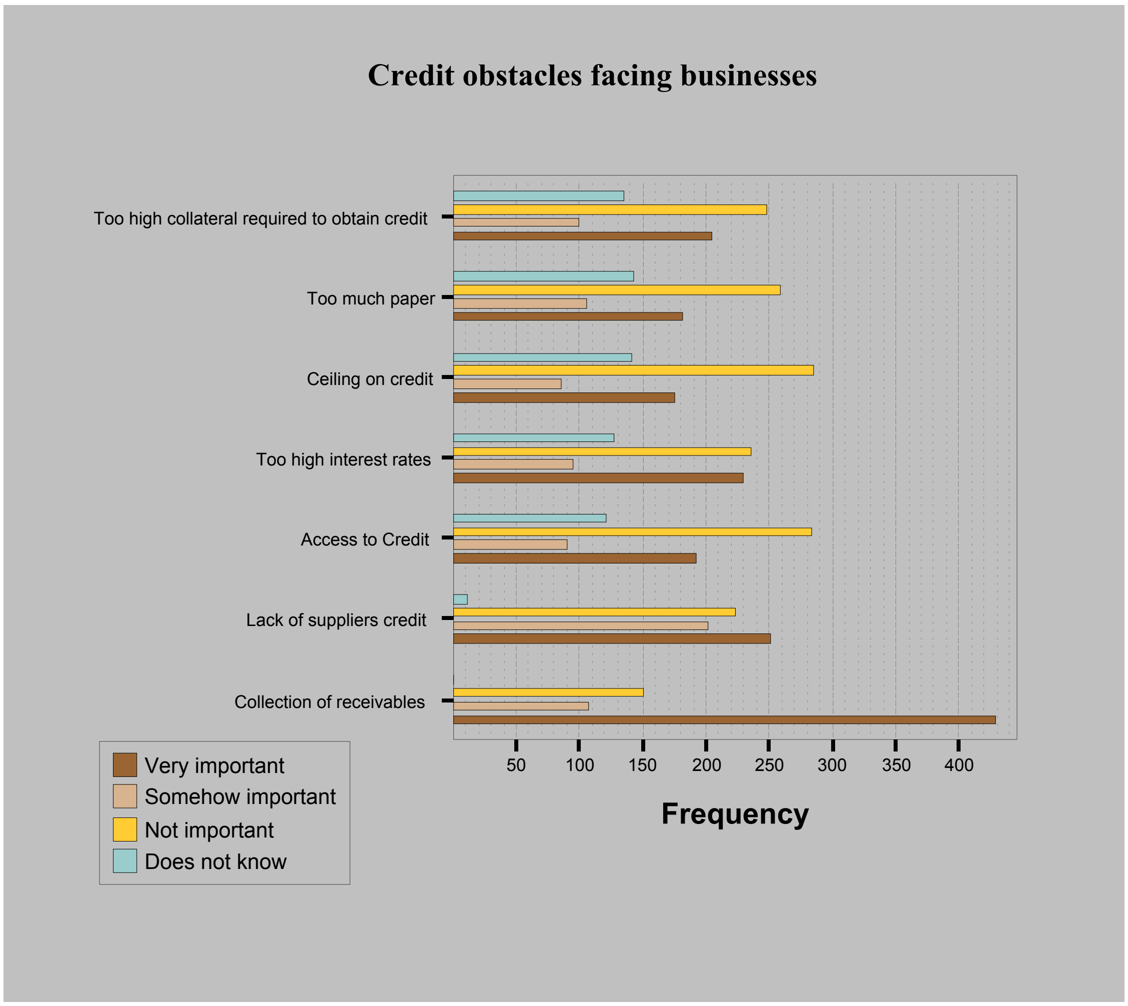
Several constraints and obstacles face businesses in the West Bank and Gaza Strip. The most important problems are those resulting from the instability of the political situation and the Israeli measures on movement of people and goods. Most respondents tend to focus on the immediate obstacles resulting from the Israeli restrictions as the results demonstrate in the following table.

Non-credit obstacles facing small and micro businesses in the WBGS



Businesses were also asked to rate the importance of problems related to credit access and terms. Surprisingly, answers were not decisive. On one hand, the largest proportion (32-42 percent) of businesses feel that access to credit is not important. On the other hand, there is also a significant proportion (25-37 percent) of these businesses which believe that access to credit is a very important problem. Since no one would expect all businesses to seek loans, it is reasonable to say that those who feel that access to credit is problematic are significant. Collection of receivables seems to be a common problem for most businesses. Slightly less than two-thirds stated that collection of receivables is a big problem. Nevertheless, credit obstacles seem to be of less importance when compared to problems resulting from the unstable political situation. The priority for most businesses is to ease the restrictions and conduct normal business activities.

Credit obstacles facing businesses

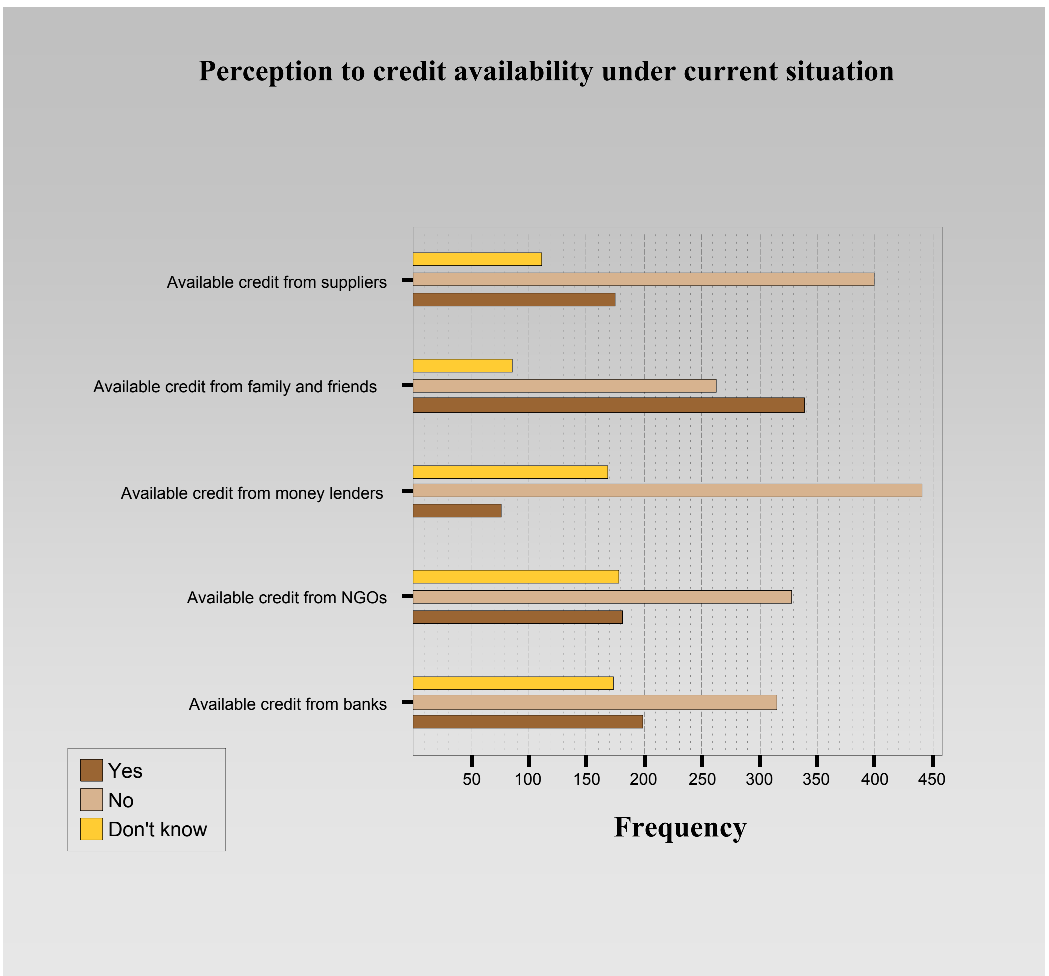


3. Demands for Credit

Given the current political instability and the deterioration of the economic situation as well as the increasing problems of marketing and distribution, shrinking operations and collection of receivables, is there a demand for credit?

A. Perception to credit availability under current situation

The general belief among businesses interviewed is that credit may not be available under the current political situation with some variations according to credit source. Slightly less than half of respondents think that credit is not available from banks and NGOs. About two-thirds believe that credit from moneylenders is not available. A larger proportion (49 percent) believes that credit from family and friends sources might be available. About one-fourth of respondents has no information if credit is available from banks, NGOs and moneylenders.



The most notable reasons for unavailability of credit are either the political situation (26 percent) or the credit is not available for women (24 percent). Very low proportions considered poor credit history or commercial banks do not lend to small businesses as significant reasons. Comparing these results to the results of Weidemann Associates report of Nov 1999 "27 percent: no collateral, 25 percent: banks do not lend to small businesses", it is evident that the most dominant concern among the business community is the political situation and its consequences.

Table 25: Why credit is not available?

Reasons	**Frequency ***	**Percent**
Banks don't lend to small businesses	93	6
Poor credit history	98	6
No collateral	196	12
Low profit margin and or risk of business	229	15
Type of business is not considered credit worth	42	3
The political situation is too risky	409	26
Credit not available to women	380	24
Other	55	4
Don't know	64	4
Total responses	**1566**	**100**

* Each responder is allowed to list more than one Response

B. Estimated demand for credit

Several issues worth mentioning regarding the analysis of this section:

1. The demand analysis under this section only pertains to individual small loans with amount less than $20,000 and does not consider the potential demand that may come from groups or micro loans that comes from micro enterprises. Another section will cover the demand that comes from this segment.
2. The demand for credit was assessed under hypothetical situation. As such, respondents may have had expressed their wishes rather than reality. Therefore, to deal with this constraint, various scenarios were assumed to conduct demand analysis.
3. The demand for credit is normally a function of different variables such as the range of credit availability from MFIs, loan conditions, paper work and guarantees, the need for the loan, interest rate for some loans, cash flow of the business and awareness of lending. However, it is not known how much each variable weights in explaining the demand variability.

Overall, the results show that a significant percentage of businesses want to borrow. Forty four percent of respondents would ask for a loan with maximum ceiling of $20,000. Of which, 33 percent would take loans with interest and 11 percent would obtain a loan from Islamic banks. Eleven percent asked for loans above $20,000. This segment is assumed to be out of the scope of this analysis since the amount of loan required is considered more than small according to the definition of the Palestinian MFIs Network.

About 44 percent do not want to borrow compared to 60 percent as reported in Weidemann report of November 1999. Furthermore, the results show that there is no one notable source of credit that most would prefer. The largest proportion of respondents who asked for loans below $20,000 (12 percent) does not care where the loan should come from.

Table 26: Wants to borrow from the following sources, if available

	Description	Frequency	Percent	Percent
Loans of $20,000 and less	Bank	26	9	4
	Financial institution	30	10	4
	NGOs	31	10	5
	Any	85	28	12
	Bank and Financial institution	13	4	2
	Bank and NGOs	26	9	4
	Financial institution and NGOs	12	4	2
	Total-borrow with interest	**223**	**74**	**33**
	*Islamic bank-borrow without interest	79	26	11
	Total	**302**	**100**	**44**
Loans above $20,000		74		11
Unknown amount		7		1
Don't want loans		304		44
Total		**687**		**100**

** Without interest does not mean there is no cost. The costs are in the form of a percentage of profit added to the buy and sell transaction.*

The demand for interest bearing loans was higher in the West Bank (43 percent) than in Gaza (34%). Ramallah and Nablus businesses were less inclined to ask for loan (29 percent and 34 percent respectively) than other areas. The highest noted demand was in Jenin area (70 percent) while in other areas was around the average. In Gaza Strip, the demand was the highest in Gaza and Khan Younis cities (each 40 percent), while it was lowest in Beit Lahia (17 percent).

There were significant differences in the proportions willing to borrow between economic sectors, agriculture, manufacturing, trade and service, in the West Bank while no significant differences noted in Gaza Strip. The proportions who showed willingness to borrow in the WB were as follows: manufacturing 34%, trade 43%, agriculture 45% and services 53%. Furthermore, there was no difference in the demand for loans between men and women in the WB. In GS men tend to ask for credit, 38 percent, more than women, 17 percent. Moreover, the demand for credit increases by the increase of number of workers. Compared to 20 percent of establishments employing one person which asked for a loan, the percentage was 60 percent for establishments employing six to nine persons.

The demand for loans was also related to the level of education; the higher the level of education, the higher the tendency to seek loans. Owners of some sort of building or a house in the GS tend to ask for loans more than those who do not own property. The same relationship was not notable in the WB.

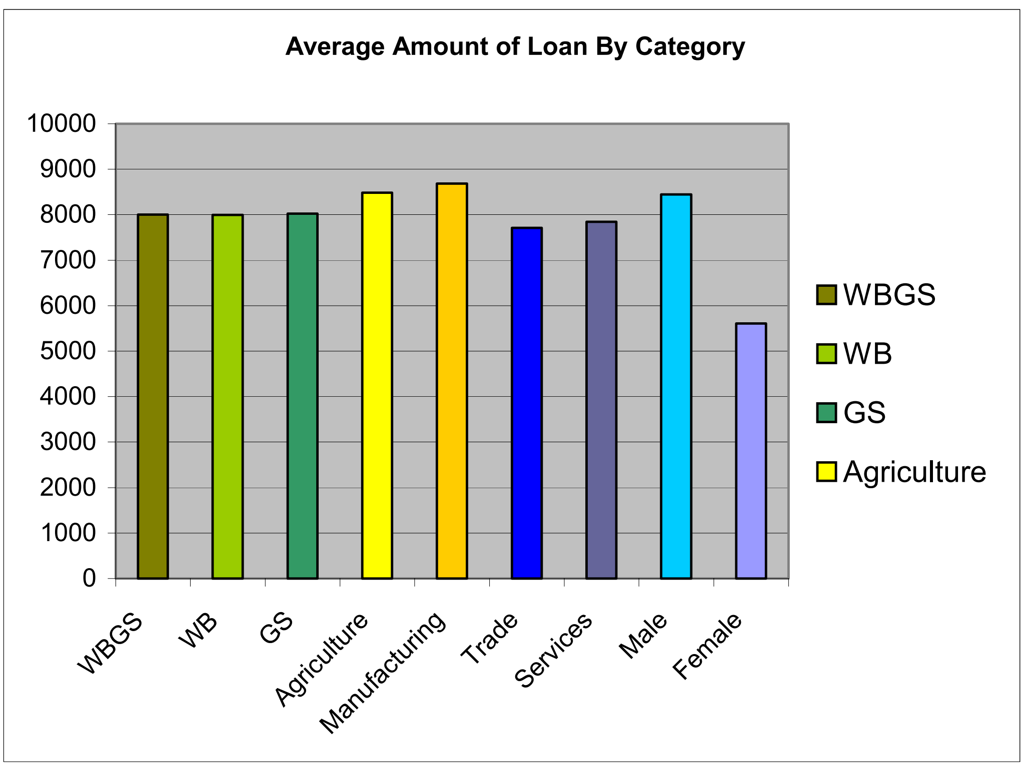
C. Average amount of loan

The following table delineates the amount of money businesses would borrow classified by amount category. Most loans can be classified as small loans. About 80 percent of respondents asked for less than $10,000 with most under $5,000.
The overall average amount requested was $8,000.

Table 29: Amount of money businesses would borrow

Description	Frequency	Percent	Average
375-1,500	19	6	1,167
1501-3,000	45	15	2,583
3,001-5,000	79	26	4,803
5,001-7,000	23	8	6,695
7,001-10,000	75	25	9,641
10,001-15,000	34	11	14,176
15,001-20,000	27	9	20,000
Total	**302**	**100**	**8,003**

The following graph provides details about the average loan size requested by sector, geography and gender. The average loan size requested in the West Bank is higher than in Gaza. An average loan size of the manufacturing sector is higher than others and the lowest is trade. Loans requested by males are higher than those requested by female businesswomen.



D. Purpose of loan

The results indicate that the tendency among businesses is to finance existing operations rather than to seek credit for expansion purposes. Among those who wanted a loan, the most often cited two reasons are to use for working capital (28 percent) and to buy more or varied stock (25 percent). But less significant groups wanted to buy new business equipment or transport, or invest in a new production technology or improved shop facilities. Some businesses wanted loans to finance their debt (6 percent). The following table shows how loans will be used:

Table 30: Primary purpose of loan

Purpose	Frequency	Percent
Increase or vary stock	77	25
Buy new business equipment or transport	39	13
Invest in new or improved production technology	19	6
Invest in improved shop facilities	25	8
Hire new workers	3	1
Retrain self and or workers	17	7
Service existing debt	18	6
General working capital	85	28
Family or consumption	6	2
Other	12	4
Unknown	1	0
Total	302	100

E. Loan duration

Respondents who were inclined to borrow were also asked about the loan term they would prefer. The following table shows the results:

Table 31: Preferred loan duration

Description	Frequency	Percent
From 3 to 6 months	4	1.5
From 7 to 12 months	36	12
From 13-24 months	66	22
From 25-36 months	76	25
More than 36 months	116	38
Unknown	4	1.5
Total	302	100

Most respondents who wanted loans wanted them for long periods of time. About 86.5 percent wanted loans for more than one year. Thirty eight percent said they would like to have a loan for more than three years while a quarter said they wanted a two to three year period. Twenty two percent wanted a loan for one to two years and only 13.5 percent wanted a loan for a period of less than one year. There were no differences between WB and GS with respect to the requested repayment period, where as women were more likely than men to request loans for shorter periods of time. Area of economic activity also seem to affect the period of time a person designated as needed for the loan period. Agriculture and manufacturing businesses were more likely to ask for longer period of time than trade and service sectors.

F. Reasons for rejection of loans

Significant proportion of businesses interviewed did not show interest to borrow. When asked about the reasons behind the lack of interest to take loans, two main reasons were cited. The first (38 percent) was obviously for ideological reasons where a significant proportion of Moslems perceive interest bearing borrowing as “haram”, or “forbidden”. The second largest group with no interest to obtain loans was those who do not need loans. Another notable group is those who do not like to be in debt (15 percent). Only 12 percent provided reasons pertaining to the weaknesses of features of loans. These results suggest that most businesses do not borrow not because of the loan process and features but rather for other non-borrowing related reasons.

Table 32: Principal reasons for not taking loans

Reason	Frequency	Percent
No need	83	27
Religious and Islamic law reasons	116	38
Don't like to be in debt	44	15
Interest rates are too high	14	5
Term of loans are unfavorable	9	3
Because paper work is too complicated	9	3
Collaterals too high	3	1
Too risky or I don't trust banks	10	3
Others	16	5
Total	**304**	**100**

Respondents from Gaza are significantly more likely to not want a loan because of religious prohibitions against borrowing than are those from the West Bank.

G. Market potential, analysis and conclusion

In order to estimate the potential demand for loans, three scenarios are taken for analysis.

Scenario one: Optimistic scenario: 80% of respondents who showed willingness to borrow are eligible and qualified. The probability of occurrence is 50 percent.
Scenario two: Average scenario: 50% of respondents who showed willingness to borrow are eligible and qualified. The probability of occurrence is 30 percent.
Scenario three: Pessimistic Scenario: 20% of respondents who showed willingness to borrow are eligible and qualified. The probability of occurrence is 20 percent.

In earlier sections, the results indicate that 33 percent would obtain loans bearing interest rate and 11 percent would take Islamic loans (equal or less than $20,000). The total percentage of potential borrowers would be 44 percent of the sample size taken in this study. Extrapolation of this demand into the small and micro business population, the demand for credit can be quantified as follows:

- According to the Palestinian Central Bureau of Statistics (PCBS), the total number of private business establishments, which employ fewer than ten people in the WBGS, is 69,434 distributed as follows:

Table 33: Number of establishments by sector in the WBGS

Sector	Number	**Percent**
Agriculture	6,247	9
Manufacturing	13,990	20
Services	86,57	12
Trade	40,540	58
Total	69,434	100

- The percentage of businesses that is willing to borrow is 44 percent.
- The average loan size as indicated earlier is $8,000.

The demand analysis will be based on three scenarios as indicated in the following table;

Table 34: Demand scenarios

Scenario	Percent	Probability of Occurrence
1. Scenario one: 80 percent of those asked for loans will actually request loans	44%*0.8 = 35 percent	50 percent
2. Scenario two: 50 percent of those asked for loans will actually request loans	44%*0.5 = 22 percent	30 percent
3. Scenario three: 20 percent of those asked for loans will actually request loans	44%*0.2 = 9 percent	20 percent
4. The expected demand	***(0.5*35%)+(0.3*22%)+(0.2*9%) = Approximately 26 percent***	

Based on these assumptions and results, the expected demand for credit would be26 percent. Referring to the number of establishments in the WBGS and the average loan size requested, the expected demand for credit in the WBGS would be:

- ***The expected number of loans requested is 18,053 with a total amount of $144 million. The demand for interest bearing loans is about 74 percent and the remaining percentage, 26 percent, is the demand for Islamic loans.***

The demand for credit by the amount of loan based on the expected demand is delineated in the following table:

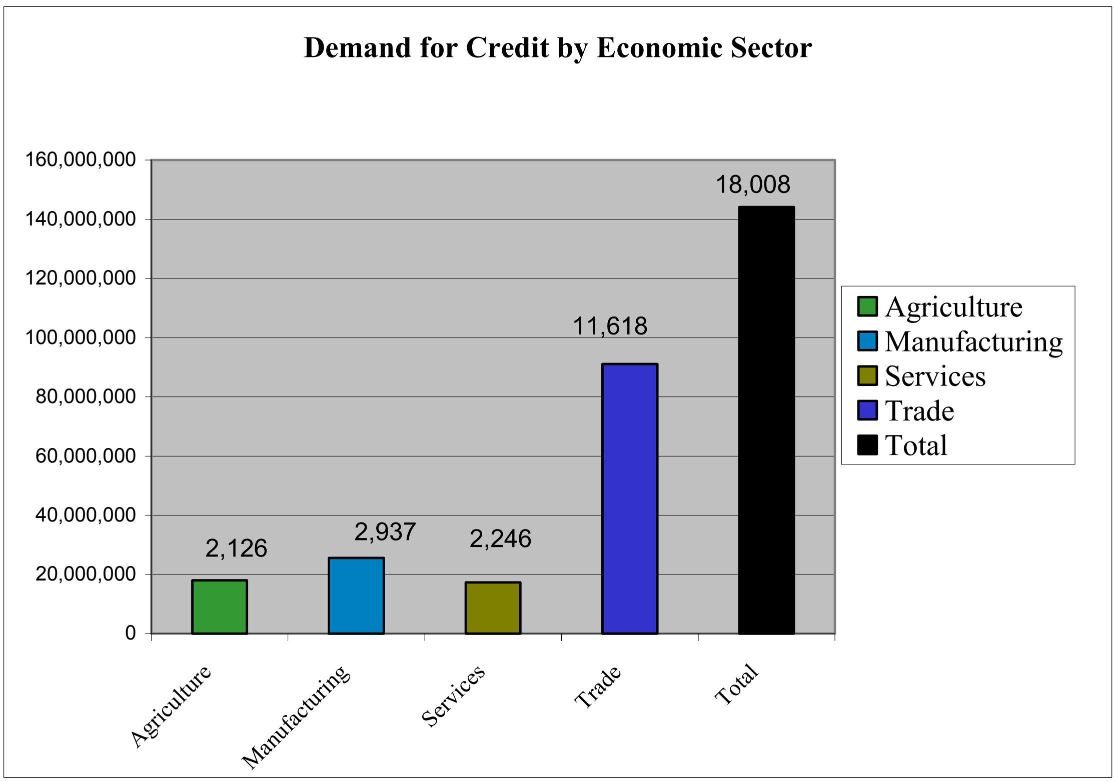
Table 35: Demand by loan size

Description	Percent	Population demand	Average amount requested (USD)	Total amount requested (USD)
375-1,500	6	1,081	1,167	1,260,953
1501-3,000	15	2,701	2,583	6,977,379
3,001-5,000	26	4,682	4,803	22,488,609
5,001-7,000	8	1,441	6,695	9,645,333
7,001-10,000	25	4,502	9,641	43,404,899
10,001-15,000	11	1,981	14,176	28,081,677
15,001-20,000	9	1,621	20,000	32,415,234
Total	100	18,008	8,003	144,121,732

It can be concluded that the potential demand for credit in the WBGS based on previous assumptions is approximately 144 million US dollars. Slightly less than one-fourth of these amounts would come from the demand for Islamic loans.
Based on the same assumptions and scenarios, the estimated demand for credit according to sectors is as follows:

Table 36: Demand by economic sector

Description	Percent	Population demand	Average amount requested (USD)	Total amount requested (USD)
Agriculture	34	2,126	8,483	18,037,960
Manufacturing	21	2,937	8,683	25,503,226
Services	26	2,246	7,710	17,317,935
Trade	29	11,618	7,843	91,116,365
Total	26	18,008	8,003	144,121,732



In conclusion, it can be safely said that in spite of the current political situation and the economic contraction of business activities, businesses still need access to credit. Unexpectedly, this need is substantial both in numbers and amounts and exceeds the demand reported in Weidemann Associates report of 1999. The major reason behind such difference is that most businesses face liquidity problems due to the low percentage of collection of receivables and the decrease in suppliers' credit both in the WBGS and Israel. Prior to the Intifada, businesses that dealt with Israeli businesses, the majority had easy access to credit through suppliers using postponed checks for three to six months. Currently, this service is almost zero.

Demand for Islamic lending was also notable where significant proportion of respondents showed willingness to borrow under Islamic rules of lending. The demand was demonstrated across all sectors, locations, and gender with some differences that may not require specific attention. The majority of respondents were very concerned about political uncertainty and less attention was paid to availability of credit and lending.

However, the demand characteristics in terms of loan size, purpose, repayment period, and collateral were unrealistic in many cases. Businesses responded in a hypothetical situation and hence may have exaggerated in their responses especially on the loan terms. It was also notable that businesses want to borrow to finance working capital and stock and few were thinking of expansion in terms of equipment and machines. Thus, the demand was focused on short-term financing and not start-ups or expansion. The question that remains is: if there is such demand for credit, what then explains the low penetration credit rate in the last few years? Is it because businesses do not know about the various lending programs? Are they still afraid to approach banks? Is the outreach and coverage limited because of reactive marketing? The following section will try to address these questions.

4. Demand for micro loans

A second survey was conducted to assess the demand for micro loans coming from informal businesses in poor neighborhoods, villages and camps. Two main areas were selected to administer this survey; Jenin area and Gaza city district. The objectives of the survey were as follows:

1. To come up with a certain characteristics of the very small informal micro businesses. Businesses that are run from home, street or elsewhere that is not registered and requires small amounts of capital.

2. To estimate the size of the informal micro enterprises by deriving an equation that defines the ratio of micro businesses to the number of households in Gaza Strip and the Wert Bank

3. To assess the demand for micro loans and its characteristics.

In order to realize these objectives, the following methodology was used:

1. A sample of two districts was selected; Jenin in the West Bank and Gaza in Gaza Strip. In Jenin, three areas were chosen to represent the poor neighborhoods in the city (the Eastern area of Jenin city), the rural areas (Yaabad village) and the refugee camps (Jenin Camp). The survey was conducted in the second half of March 2002 before the incursion and invasion of Jenin.

In Gaza Strip, Al-Shajaeyah was selected as a poor neighborhood in Gaza city, Bet Hanoun as a rural area and Al-Nuseirat Refugee Camp.

2. A closed ended questionnaire was developed to be administered to a random sample in theses areas. A special record was also developed to document the number of houses visited that do not run micro businesses.

3. Each area surveyed was divided into several blocks and the surveyors were instructed to select the fifth house in each block and visit it. If the household has a a micro business, then the questionnaire will be administered to the Manager of the business and when completed the next fifth house will be selected again. If the household does not have a business, the household is recorded in a special form, then the surveyor visits the next direct house.

4. The surveyors were instructed to continue visiting houses until they complete 20 questionnaires in each location. The total number of households visited was 531, of which, a total of 120 micro businesses were found and interviewed distributed equally between the West Bank and Gaza and between the areas. The following table shows the number of households surveyed, number of micro enterprises and the ratio of micro enterprises to the number of households in each area.

Table 37: Number of microenterprises WBGS

No.	Location	Have micro enterprise	Do not have micro enterprise	Total	Ratio No. of households with microenterprise : No. of households with no microenterprise
1.	Jenin-East Neighborhood	20	62	82	1 : 3.1
2.	Yaabad	20	42	62	1 : 2.1
3.	Jenin Camp	20	44	64	1 : 2.2
Total/Average		**60**	**148**	**208**	**1 : 2.5**
4.	Gaza-Alshajaeya	20	93	113	1 : 4.6
5.	Bet Hanoun	20	82	102	1 : 4.1
6	Al-Nuseirat Camp	20	88	108	1 : 4.4
Total/Average		**60**	**263**	**323**	**1 : 4.4**

- Percentage of microenterprises from poor population in the West Bank is approximately 29 percent
- Percentage of microenterprises from poor population in Gaza is approximately 19 percent.

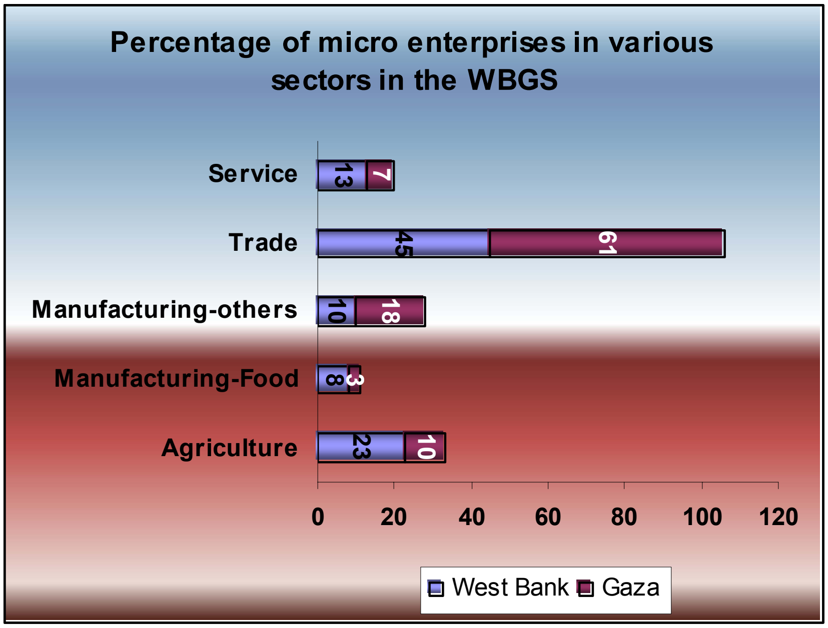
A. Profile of micro enterprises

1. Line of Business

The following table shows the line of micro businesses that are mostly found in the informal sector:

Table 38: Type of business

Sectors	Type of business	Frequency/ Percent	WBGS		Total
			WB	GS	
Agriculture and animal husbandry	Birds & fish, Animal farms, Trees Planter, Zaatar planter, Farmer, Local Chicken Farmer, Bee farmer, Tobacco	Frequency	14	6	20
		Percent	23	10	16
Manufacturing of food	Dairy products , Falafil seller, Maftool producer, Gullaj sweets bead, Cheese maker, Food store, Pickling	Frequency	5	2	7
		Percent	8	3	6
Manufacturing of other product	Basting, Basting clothes, Coal, Dress Machines, Dressmaker, Dressmaker or Tailor, Glass Boats Maker, Carpet manufacturer, Detergent manufacturer, Pasting, Curtains makers, Needlework Frames	Frequency	6	11	17
		Percent	10	18	14
Trade	Food Products, Cosmetics, Merchant, Beans, Cheese, Chicken, Coal, Cosmetics, Dairy products, Dresses, Farms Merchant, Bookstore, Flower Boats, Feed, Fruit seller,. Fool and hummos, Grocery, Ice Cream, Carpet, manufacturer, Milk, Nuts, Rabbits, Birds & fish, Cosmetics, Kiosk, Sweets, Crafts shop, Tobacco, Household products, Vegetables, Vendor	Frequency	27	37	64
		Percent	45	61	53
Services	Bicycle Repair, Flower coordinator, Hairdresser and Beauty Salon, Home Teacher, Daycare center, Photographer, Electrical tools repairman	Frequency	8	4	12
		Percent	13	7	10
Total		**Frequency**	**60**	**60**	**120**
		Percent	**100**	**100**	**100**



1. The majority of micro enterprises are in the trade sector. In Gaza, more enterprises are in trade (61 percent) than the West Bank (45 percent).
2. Micro enterprises engaged in agricultural activities are more in the West Bank (23 percent) than in Gaza Strip (10 percent).
3. Micro enterprises engaged in food production are more in the West Bank (8 percent) than in Gaza Strip (3 percent).

2. Business manager

Table 39: Who manages the micro business?

Business manager	**Frequency / Percent**	**WBGS**		**Total**
		WB	**GS**	
Husband	Frequency	21	22	43
	Percent	35	37	36
Wife	Frequency	25	32	57
	Percent	42	53	47.5
Son	Frequency	8	4	12
	Percent	13	7	10
Daughter	Frequency	5	2	7
	Percent	8	3	6
Husband mother	Frequency	1	-	1
	Percent	2	-	1
Total	**Frequency**	**60**	**60**	**120**
	Percent	**100**	**100**	**100**

1. The majority of micro businesses are managed by wives in the West bank and Gaza (47.5 percent).
2. The results show that husbands are significantly engaged in micro business activities in the West Bank and Gaza (36 percent). Phenomenon that might have been materialized due to unemployment and poor economic conditions.
3. Daughters and sons are also engaged in managing micro businesses.

3. Amount of investment

Table 40: Amount of investment in $

Amount of investment in $	Frequency / Percent	WBGS		Total
		WB	GS	
60-500	Frequency	28	30	58
	Percent	47	50	48
501-1,000	Frequency	9	24	33
	Percent	15	40	27.5
1,001-2,500	Frequency	13	6	19
	Percent	22	10	16
2,501-6,000	Frequency	10		10
	Percent	17		8
Total	**Frequency**	**60**	**60**	**120**
	Percent	**100.0**	**100.0**	**100.0**

1. About two thirds of micro enterprises have less than $1,000 investment
2. The size of investment in the West bank is higher than in Gaza Strip. All Gazan micro businesses have investments at a maximum of $2,500 while in the West Bank there is a significant proportion (17 percent) that invested more than $2,500.

4. Location of the micro businesses

Table 41: Business place

Business place	Frequency / Percent	WBGS		Total
		WB	GS	
Home	Frequency	40	32	72
	Percent	67	53	60
Street	Frequency	8	7	15
	Percent	13	12	12.5
Market	Frequency	9	19	28
	Percent	15	32	23
Others	Frequency		2	2
	Percent		3	2
Farm	Frequency	1		1
	Percent	2		1
Movable	Frequency	1		1
	Percent	2		1
Popular neighborhood	Frequency	1		1
	Percent	2		1

Sixty percent of micro businesses operates from home, 23 percent operates in the market place and 12.5 percent operates in the streets.

5. Year of establishment

Table 42: Year of starting the business

Year of starting the business	Frequency / Percent	WBGS		Total
		WB	GS	
Prior to 1992	Frequency	20	14	34
	Percent	33	23	28
1993-1999	Frequency	26	25	51
	Percent	43	42	42.5
2000-2002	Frequency	14	21	35
	Percent	23	35	29
Total	**Frequency**	**60**	**60**	**120**
	Percent	**100**	**100**	**100**

1. Most businesses were established since the Oslo Accord and about 29 percent were established in the last three years. Gaza micro businesses are more recent (35 percent) than their counterparts in the West Bank (23 percent).
2. About two thirds of these businesses operate regularly, while the remaining functions seasonally and irregular.
3. Three fourths of these micro enterprises operate from a permanent place while the rest 25 percent are movable.

B. Profile of respondents

- Gender: Female 54 percent and male 46 percent
- Level of Education: 13 percent illiterate, 19 percent elementary, 25 percent primary, 31 percent secondary, 7 percent intermediate college and five percent university.
- Bank account: 26 percent have bank accounts, 74 percent does not have bank account with the majority in Gaza Strip.
- Children: 81 percent have family with children, with the majority in Gaza. 30 percent have 1-4 children, 58 percent have 5-8 children and 12 percent have 9-12 children, with the majority of children in Gaza.
- House ownership: 90 percent own their houses.
- Another source of income: 49 percent have a another source of income.

C. Credit history

- Source of financing

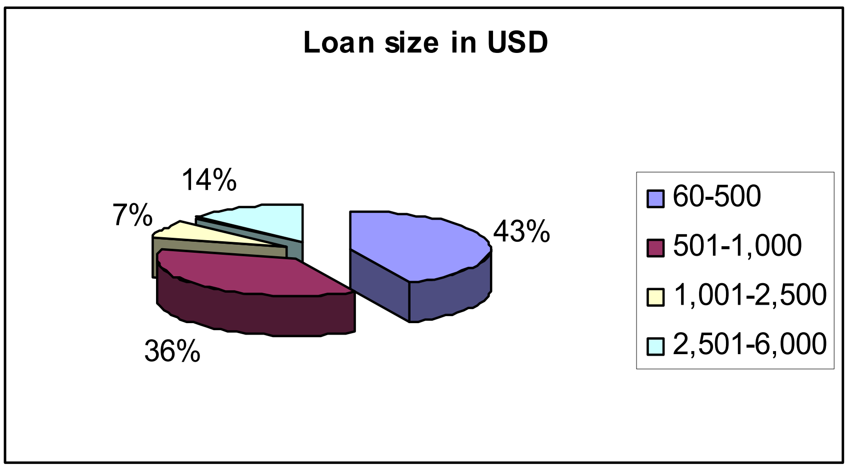
1. The majority of micro businesses (70 percent) started their businesses from their own savings.

2. About 13 percent obtained loans from family and friends, most of them are in the West Bank.
3. Six percent inherited the business/money to start it.
4. Only one percent obtained loans from money lenders.
5. Only three percent obtained loans from NGOs and banks.

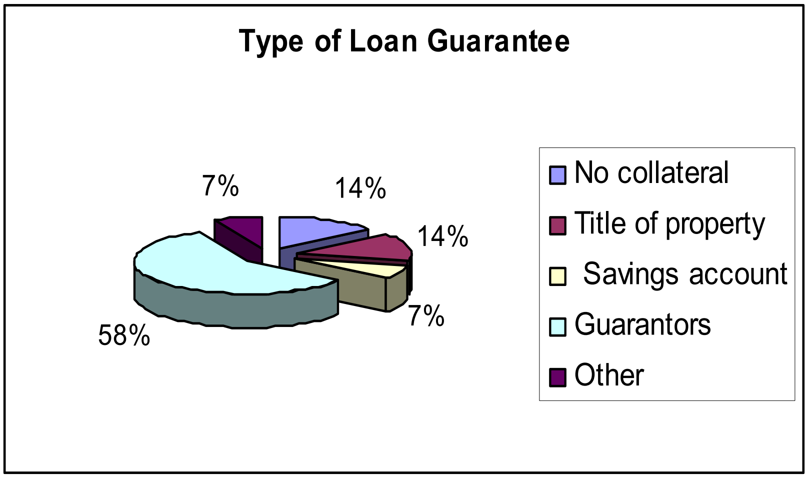
Twelve percent of the micro enterprises surveyed obtained loans after the start of their businesses. The sources of loans were 29 percent from UNRWA, 14 from FATEN, 29 percent from banks, 7 percent from ASALA and the rest from friends, suppliers and the Palestinian Authority.

- Loan size

The majority of micro enterprises (43 percent) obtained loans from $60 to $500, with most in Gaza Strip. Thirty six percent obtained loans in the range of $501 to $1,000. Seven percent obtained loans that ranged from $1,000 to $2,500; all from the West Bank. Furthermore, 14 percent obtained loans that ranged from $2,500 to $6,000.



- Collateral



The above graph shows that the majority of those obtained loans were asked to provide guarantors as a condition to get the loan. Interestingly, 14 percent claimed that no conditions were asked for to access the loan; perhaps those obtained loans from family and friends.

D. Perception of availability of credit

- Seventy three percent believe that the availability of credit from banks is very difficult and 12 percent believe it is difficult.
- Twenty three percent believe that access to credit from NGOs sources is very difficult, while 33 percent believe it is difficult.
- Thirty five percent believe that the availability of credit from money lenders is very difficult and 21 percent believe it is difficult.
- Thirty five percent have heard about credit programs and 65 percent did not. These results indicate the importance of promotion and awareness campaigns.

E. Impact if Intifada

Table 43: Monthly sales prior to Sept 2000 and during the Intifada(NIS)

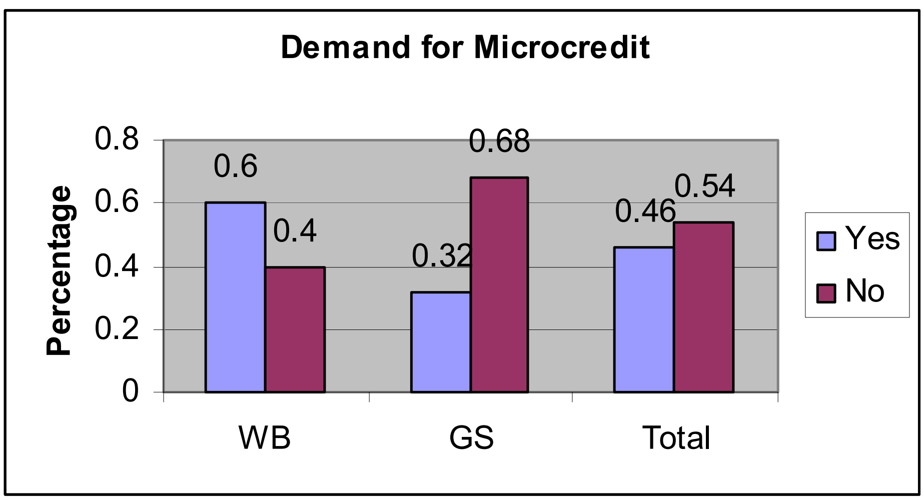
Monthly Sales	Prior to the Intifada			Currently		
	WBGS		Total	WBGS		Total
	WB	GS		WB	GS	
80-1,000	33	51	42	59	88	73.5
1001-2,000	21	31	26	17	7	12
2,001-4,000	15	13	14	22	3	13
4,001-6,000	19	2	11	2		1
6001-15000	12.5	2	7.5		2	1

The current political situation and the interruption of economic activities have severely affected micro businesses. Sales decreased and the number of microenterprises whose sales decreased have substantially increased.

1. Those who used to sell from 80 to 1,000 New Israeli Shekel (NIS) per month prior to the Intifada had increased significantly from 42 percent to 73 percent; about 73 percent increase.
2. All other sales categories in the higher end were decreased substantially.

F. Microcredit demand

The following section provides analysis of the demand for micro loans. Overall, 46 percent shows willingness to ask for micro loans. The results also indicate that respondents in the West Banks were more inclined to ask for loans (60 percent) than respondents in Gaza (32 percent). The following graph shows these results:



Respondents who did not show interest to obtain loans provided the following reasons, as shown in the below table, for not wanting a credit:

Table 44: Principal reason for not taking a loan

Principal reason for not taking a loan	WBGS Percent		Total
	WB	GS	
Do not believe to be in debt	37.5	10	20
No need	42	39	40
Taking loan is so difficult	-	15	9
Religious reasons	8	-	3
Un able to repay the loan	12.5	-	5
Others	-	37	23

The most sited reason is that there is no need for cash. Interestingly, the religious reason for rejecting loans was the least reason among others. Another significant proportion (20 percent) shows personal reasons for not asking loans, many may believe that being in debt is a sign of weakness.

Respondents were also asked if they would be willing to get micro loans on incremental basis up to $1,000. The results are shown in the following table:

Table 45: Taking gradual loan starting at $100 up to $1,000

Taking gradual loan start of $100 up to $1000	WB	GS	Total
Yes	29	9	38
	81	47	69
No, I need (1,500 to $5,000)	7	10	17
	19	53	31
Total	**36**	**19**	**55**
	100	**100**	**100**

- 69 percent will take loans up to $1,000, if available.
- 31 percent will ask for loans that range from $1,500 to $5,000.

The following table depicts the categories of micro loans amounts (up to $1,000) needed by respondents:

Table46: Amount of money would be borrowed of loans up to $1000

Amount (USD)	Frequency / Percent	WBGS		Total
		WB	GS	
300-500	Frequency	4	4	8
	Percent	14	44	21
501-750	Frequency	4	2	6
	Percent	14	22	16
751-1,000	Frequency	21	3	24
	Percent	72	33	63
Total	**Frequency**	**29**	**9**	**38**

- The largest segment (63 percent) needs $751-$1,000 with most in the West Bank.
- The largest segment in Gaza (44 percent) needs $300-$500.

The following table depicts the amount categories of loans above $1,000 and up to $5,000 in the West Bank and Gaza:

Table 47: Required size of loan above $1,000

Required size of loan above $1000	WBGS Percent		Total %
	WB	GS	
1,500	14	0	6
2,000	29	50	41
3,000	29	30	29
5,000	29	20	23.5

G. Purpose of the loan and loan term

- The most sited reasons for taking the loan are: 56 percent for project expansion and development, 26 percent for working capital and 19 percent to increase investment.
- Fifty percent wants the loan for 11-12 months, 37 percent for 7-10 months, 11 percent for 4-6 months and 3 percent for 1-3 months. Gazans tend to ask for shorter periods than their counterparts in the West Bank.

H. Group lending versus individual lending

- Respondents in the WBGS show more preference to individual lending (68 percent) than group lending (18 percent). The remaining 14 percent did not show any preference for one methodology over the other.
- In Gaza, respondents were decisive. Most of them were inclined to prefer individual lending (89 percent) over group lending (11 percent).

I. Estimated total amounts of the demand for micro loans

There are no available statistics about the informal sector in the WBGS regarding its size and specific characteristics. This sector is almost hidden and difficult to come up with accurate figures about its size and growth. The methodology used in this survey may provide insights about the size of this sector. The results of the special records used to document the number of visited household which have/not micro businesses are indicated in the previous table 37:

The results show that in average there is one micro enterprise for every 3.5 households in the West Bank and one micro enterprise for every 5.4 households in Gaza Strip. The overall average is for every 4.5 households in the West Bank and Gaza, there is one micro enterprise. Given this equation, it is possible to extrapolate to the whole population and estimate the number of microenterprises in the West Bank and Gaza Strip. The following section presents demand analysis based on the following parameters and assumptions:

1. It is assumed that micro enterprises (informal businesses) mostly exist within the poor population. Therefore, extrapolation will only apply to poor population based on the ratios discussed earlier.
2. It is also assumed that 80 percent of those asked for micro loans will actually ask for loans in reality.

- Size of the microenterprises sector

Table 48: Size of the microenterprise sector

Description	Indicators		
	WB	GS	Total
Population	2,102,360	1,196,591	3,298,951
Average family size	6.1	6.9	
Number of households	344,649	173,419	518,068
Poverty rate	50%	50%	
No of households under poverty line	172,325	86,709	259,034
* Percent of micro enterprise	29%	19%	
Estimated no. of micro enterprises	**49,709**	**16,107**	**65,816**

**** This percentage is calculated from the results shown in table 37***

- Demand size for microcredit

The results shown in earlier sections showed that:

⇒ The percentages of microenterprises who showed interest to obtain loans up to $1,000 are 48 percent in the West Bank and 15 percent in Gaza Strip,

⇒ The percentages of microenterprises who showed interest to obtain loans from $1,000 to $5,000 are 12 percent in the West Bank and 17 percent in Gaza Strip,

⇒ The average loan size below $1,000 in the West Bank and GS is $817

⇒ The average loan size between $1,000 to $5,000 in WBGS is $2,971

Assuming that 80 percent of those interested in getting loans in both categories will actually request loans, the number of loans as well as the amounts will be as depicted in the following table:

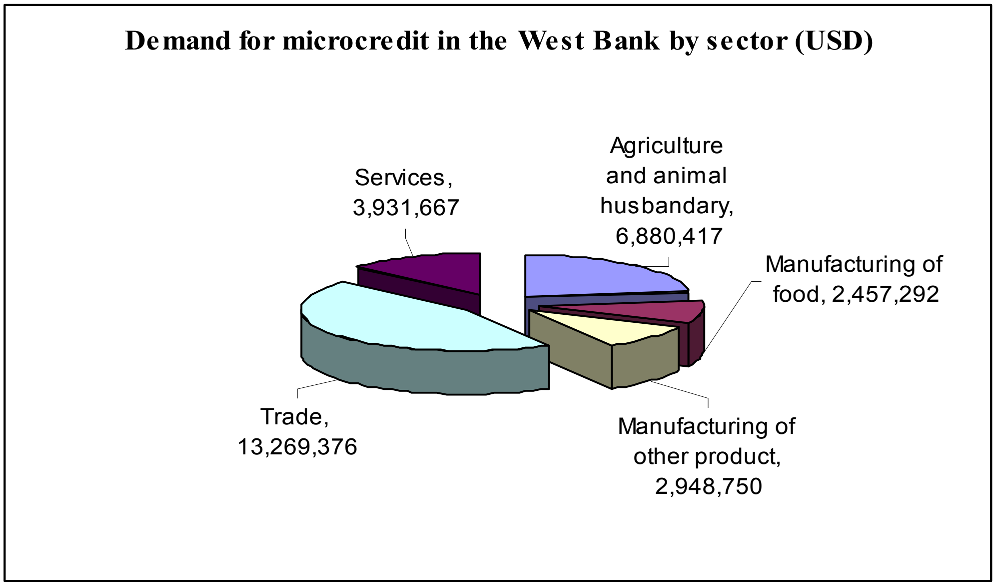
Table 49: Demand for micro loans

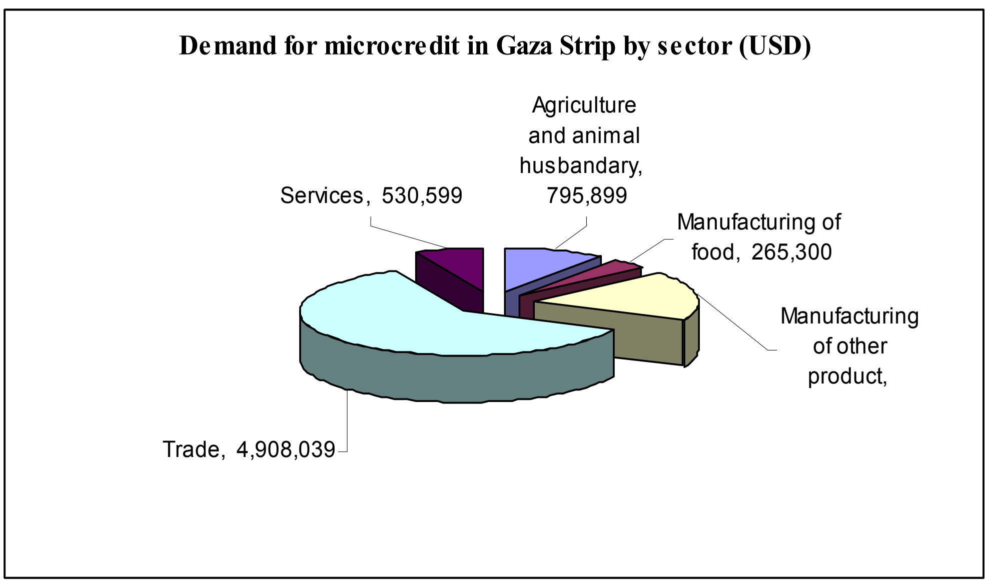
Loan size	West Bank		Gaza Strip		Total (USD)
	No. of loans	Amount (USD)	No. of loans	Amount (USD)	
Less or equal to $1,000	19,221	15,705,433	1,933	1,579,336	17,284,769
More than $1,000 up to $5,000	4,640	13,782,068	2,148	6,379,646	20,161,714
Total	**23,861**	**29,487,501**	**4,081**	**7,958,982**	**37,446,484**

It is very important to note that demand shown in the above table, represents new demand that can be served, in addition to existing served clients. The reason behind such argument is that most of surveyed enterprises did not have access to loans in the past. Furthermore, the potential demand for micro loans is not limited to those interested in access to credit as discussed in earlier sections, but may extend to those who did not ask for loans at present time.

Surprisingly, the demand for micro loans in the West Bank far exceeds the demand in Gaza Strip. This can be explained by several reasons. First, the number of enterprises in the West Bank is much larger that those in Gaza Strip. Second, the opportunities for small income generation activities in the West Bank might be greater than those in Gaza due to the larger area, topography and higher income.

The distribution of demand for microcredit among various sectors is shown in Table 50. This distribution is based on the percentage of each sector from all business activities as resulted from the survey and discussed in earlier section in Table 38.





J. Problems of micro enterprises

Respondents were asked to specify the most important problems they face. The following list of problems was identified:

Problems	Frequency
Decrease in demand and sales	47
Death of animals, diseases, pollution	25
High production costs and prices of raw material and supplies	24
Political situation and closures	22
Lack of goods, raw material and feeds	20
Debts, liquidity, lack of financial resource and support institution	13
Competition	12
Decrease in profits and income	10
Improper location	10
Difficulty of transportation	10
Lack of capital and investment	8
Technical breakdowns and lack of machine and repair part	8
Technical production problems	5
Contamination	5
Weather changes and rainfall	4
Lack of water and electricity	3

K. Respondents' recommnedations

Respondents' recommendations to improve their businesses	Frequency
Reduce interest	29
Increase length of payback period	27
Improve credit services by easing and smoothing procedures	22
Increase and support institutions that provide credit to small and women projects	21
Loans without interest	14
Relate loan terms to the project capabilities	8
Increase loan amount	6
Reduce guarantee requirements	3

III. SUPPLY OF CREDIT

As discussed in earlier sections, the banking sector and lending activities are recent in Palestine. Large-scale banking activity only started in the mid-nineties and just few years before that some lending activity was underway, but on a small scale targeting small and micro entrepreneurs. At that time, commercial banks were not engaged in any targeted credit programs for small and micro businesses. However, NGOs engaged in credit programs were totally subsidized by donor money. Some of them, such as Save the Children, were managed and directed by the donors themselves. The practice of microcredit was limited in terms of coverage, outreach and focus. It was mainly characterized by charity where common practices and standards of this type of lending were not existent. The knowledge and expertise of best practices was also very limited.

In recent years, microfinance activities expanded significantly in terms of number of credit programs, scope, outreach, coverage and focus. Commercial banks and more focused NGOs are now engaged in lending activities with a commercial approach and businesslike manner. Donors significantly support these programs whether in capital or technical assistance or both. Most of these programs are practicing lending based on commercial bases and financial sustainability. However, the magnitude of these activities and practices did not reach a level of a micro finance industry.

According to the Weidemann report of 1999, the total supply of micro and small lending was about 78 million dollars, of which 57 million was channeled through banks and the remaining 21 million through NGOs. The same report concludes that the outstanding loans were about 41 million dollars distributed among 20,492 loans in 1999.

In September 2000, the Palestinian Intifada started and as a result the economic situation deteriorated and lending activities slowed down. The general impression is that banks almost significantly reduced lending to small businesses and in only a few cases provided loans to guaranteed clients, whereas NGOs continued to lend conservatively and with a cautious approach. The following sections provide insight to the supply of micro and small credit during the Intifada.

A. Credit programs for micro and small businesses

This section excludes supply of credit that comes from suppliers credit, moneylenders, family and friends. It focuses only on formal lending from Banks and MFIs. Descriptions of the existing micro and small lending programs are indicated in the following table. Features of each program include:

a. Target groups (sectors, gender others) and geographical coverage (GSWB)
b. Start up and existing businesses

c. Loan amount, loan purpose, loan term, interest rate (annual/monthly), commission, grace period and payments, requirements (collateral, guarantors, business plan, other) and processing time of application.

Table 50: Credit programs for microlending in the West Bank and Gaza

Name of MFI and program	Target group	Loan amount, term, grace period, interest rate and coverage	Loan purpose	Loan processing time	Conditions
Arab Bank- ***Programs 1***	- All sectors excluding agriculture - Businesses that employ fewer than ten people - Has been in business for at least one year - No gender preference	- $2,000-10,000 - 4-12 months - No grace period - 1 to 1.75% monthly flat rate - Coverage West Bank 70% Gaza Strip 30%	Working capital	One month	- Guarantors-preferably have accounts at the bank - Cash flow statement
Program 2	- All sectors excluding agriculture - Businesses that employ fewer than ten people - Has been in business for at least one year - No gender preference	- $10,000-$30,000 - Up to three years -Three months grace period - 11-14% annual interest rate on balance - Coverage West Bank 70% Gaza Strip 30%	Fixed assets and working capital	One month	- Guarantors-preferably have accounts at the bank - Cash flow statement - Mortgage such as car, land or other fixed asset
Bank of Jordan	- All sectors - Businesses that employ fewer than ten people - Has been in business for at least one year - No gender preference	- $2,000-$10,000 - Up to 12 to 15 months - No grace period - 1.75% to 2% monthly flat rate plus 0.004 for stamps - Coverage West Bank 60% Gaza Strip 40%	Working capital	One week	- Two guarantors, or deposit as an insurance by the borrower - Business plan and cash flow conduct by the credit officers of the bank.
Bank of Palestine-Gaza	- All sectors - Existing small business with limited income - Gaza Strip: 100% - No gender preference	- Incremental loans starting at$1,000, $2,000 up to $5,000 - six to 36 months - No grace period - 1.2% monthly flat rate	Working capital	One week	- Notary deed - Postponed checks
National Bank of Jordan	- All sectors - Businesses that employ fewer than ten people - Has been in business for at least	- $2,500-$30,000 - Six to 30 months - 10-12% per year on declining balance + commission of 2.5%	Expansion purposes	Three weeks	Business plan for new business, feasibility stud existing business, cash flow, business and finar analysis

	one year (90%) - New businesses (10%) - West Bank 100% - No gender preference	- Six months grace period			Official documents such as license for new bus contract; company registration certificate; Two guarantors Price quotations (in case of financing fixed assets)
Commercial Bank of Palestine	- All sectors (excluding agric in small businesses - West Bank - No gender preference - Existing businesses	- $2,500-$30,000 - Six to 12 months for working capital and two to three years for fixed assets - 11% to 14% plus $35 application fees - Up to six months grace period	- Working capital - Fixed assets	- About 18 days	- Business plan for new business, feasibility study for existing business, cash flow, business and financial analysis; - Official documents such as license for new business, land, house, cars and equipment - Two guarantors.
Palestine for Credit and Development (FATEN) **Group Lending (at least five women)** **Individual lending (Under planning stage)**	- All sectors - 100% women - Existing businesses - West Bank and Gaza - Existing businesses - Women - WBGS - Existing businesses	- 200JDs at first phase (24 weeks) - 400, 500, 600 JDs at second phase (24 weeks) - 700,800, 1,000 JDs (about 40 weeks) - 2% monthly flat rate plus 3 JDs loan fee at first phase and 5 JDs at second phase - Payment every two weeks - No grace period - $1,500-$3,000 - 2% monthly flat rate	- Working capital	One week	- Peer pressure to guarantee repayment - No guarantors or collateral - No collateral, in this stage, - The borrower can take this loan after she went through the 2 phases and during this period the credit officer will have a clear picture about hes history and her reliability. - Also the client should sign a credit receipt. While FATEN's staff conduct a business plan, Balance Sheet and Income statement for the client
YMCA	- Vocational businesses - Youth up to 35 years old - West Bank and Gaza - Start ups and existing businesses - Men and women	- Up to $15,000 - 3- 36 months loan term - 7% annual flat rate - Up to two months grace period	Finance purchasing of tools, equipment, and raw material	10-12 days	- Have a place to conduct business; - The borrower’s age must be less/equal to 35 years old - Good reputation - Work experience (at least 6 months) - Two guarantors - Postponed checks

Business Women Association-ASALA	- All sectors - Start ups and existing businesses - Women projects - West Bank and Gaza	- 1,000-$20,000 - Up to 36 months loan term with monthly payments - Up to 6 months grace period - 6.15% annual flat rate	Working capital and fixed assets	One month	- Two guarantors; at least one should be a government employee - Notary deed - Feasibility study - Documents about the business.
ANERA (in cooperation with the Arab Bank) **1) Agriculture loan**	Agriculture sector Gaza and Jericho Start ups and existing businesses	- Up to $8,000 - One to three years loan term with monthly, bimonthly and quarterly payment - LIBOR plus 2.5% annual interest - 3-6 months grace period	Working capital and investment in fixed assets	One month	- Two guarantors with salary transferred to the Arab Bank
2) Women loans	Gaza and Jericho Start ups and existing businesses	- Up to $5,000 - One to three years loan term with monthly, bimonthly and quarterly payment - LIBOR plus 2.5% annual interest - 3-6 months grace period	Working capital and investment in fixed assets	One month	- Two guarantors with salary transferred to the Arab Bank
PARC **1) General program**	- West Bank and Gaza - 90% agriculture - Start ups - Women projects	- 500 to 3,00JDs for individual projects and 5,000JDs for group projects - Up to two years loan term - 6% fees - 3-6 months grace period	Working capital Fixed assets	NA	Two guarantors and postponed checks
2) Caritas program	West Bank and Gaza Women projects Service and production Start ups	- Up to $5,000 - Up to two years loan term - 8.5% annual interest rate - 2-3 months grace period	Working capital Fixed assets	NA	- Lease contract, company registration document, license practice - Price offers, - Personnel guarantors.
3) IFAD/Arab Bank Program	West Bank and Gaza Strip Working Women	$1,000-$3,000 for individual projects and up to $6,000 for group projects	Working capital Fixed assets	NA	Guarantors and deposits

	Agriculture and handicraft Start ups	Two to three years loan term 7% annual interest rate and 2% commission 3-6 months grace period			
Care International- **Group lending**	- Women in Jenin area, in nine villages in particular - Agriculture/ goat raising, trade, house maintenance, education, health, and others. - Start ups and existing	- 1,000-3,000 NIS - Up to one year loan term - 2-3% annual interest rate - Up to 3 months grace period	Finance new business or expanding the existing one	One month	Group guarantee where each borrower is guaranteed by the rest of the group
UNRWA-West Bank **Micro Enterprise Credit (MEC)**	All sectors except agriculture Existing businesses No gender preference	- In 4 cycles:1) 400-600JD 2) 600-1,200JD 3) 1,200-3,600JD 4) 3,600-4,800JD - 4-9 months loan term - 2% monthly flat rate - No grace period	Working capital	One week	1) for a new borrower 2 guarantors and post dated checks. 2) if the borrower has taken loans before then UNRWA accepts post dated checks only.
Small Scale Enterprise (SSE)	Same as Gaza				
UNRWA-Gaza **Small Scale Enterprise (SSE)**	Industry and service business Existing businesses Male and female Refugees and others	Amount $3000-$70,000 7% declining balance + 3% fees (16-18% effective rate) 20-24 months loan term 2-4 months grace period	Working capital	One month	Guarantors Postdated cheques Notarial deed
Micro Enterprise Credit (MEC)	Formal and informal (self employed) Existing businesses in all sectors Refugees and others	1,000-$8,000 1.6% monthly flat rate (30-34% effective) 4-9 months loan term No grace period	Working capital	NA	Post dated cheques and loan agreement
Solidarity group (SGL)	Women-owned micro enterprise Self employed (informal and formal sectors), refugees and	Graduated loans 400-$4,000 2% monthly flat rate (30-34% effective) 4-10 months repayment period	Working capital	NA	Notarial deed and group guarantee

	residents-Group lending	No grace period			
ACAD	- Agricultural projects - West Bank (north and middle) and Gaza Strip - Existing businesses - Men and women projects	-$3,000 for working capital and up to one year loan term at 18% annual interest rate on declining balance - $7,000 for investment in fixed assets and three years loan term at 12% per year on de balance - 1.5% flat commission fee - Up to six months grace period	Working capital and fixed assets	2 weeks to one month	- Postponed Checks - Promissory Notes - Loan Agreement PNA Guarantor
Palestine Banking Corporation (PBC)	- Small and micro businesses in IT, handicrafts and agriculture sectors - West Bank and Gaza - Start ups and existing-preferable - Men and women	$5,000 to $20,000 6.5% annual interest rate Up to six months grace period Loan term: one to three years	Working capital and investment in fixed assets		- Bank guarantee, land, cars, apartments, savings - Promissory notes and checks.

The above table provides information about the overwhelming majority of credit institutions. However, several issues can be noticed:

- With the exception of several specialized NGOs and banks such as ANERA, ACAD, PBC none of these programs have focused sectoral targets.
- Women are well represented in most NGOs programs and some NGOs such as FATEN and ASALA are only engaged in lending to women businesses.
- Most programs cover the West Bank and Gaza Strip.
- Programs are diversified and targets micro and small businesses.
- Interest rates vary according to program. Interest rates for short term small loans are significantly higher than longer and larger loans.

B. Total amount of credit available for micro and small lending (banks and NGOs)

Banks and NGOs engaged in micro and small lending programs were asked to state the total amount allocated for lending to micro and small businesses. Banks, however, do not generally allocate a specified amount of their resources to specific project or sector unless there is a very specific program for certain sector (s) subsidized by a donor country. The banks interviewed are those who have certain programs for microlending. On the contrary, all NGOs have certain budgets specifically allocated for lending to small and micro businesses. All NGOs implement these programs with the assistance of donor countries and most of their funds are provided by these countries. Some NGOs, such as ANERA, implement their program in cooperation with banks (Arab Bank). Others, such as ASALA and the YMCA use the bank only as a transaction window.

The following table provides general insight about the funds available for microlending.

Table 51: Supply of credit by source

Source	Available Supply (USD)	No of borrowers	Outstanding balance (USD)_	Notes
Bank of Jordan	2 million	661	861,000	All sectors, WB 60%, GS 40%
Bank of Palestine	1.5 million	558	About 600,000	Only for GS: Alrimal, Alnasr, Jabalia branches.
Jordan National Bank	8 million	388	2.4 million	Only WB: Transportation 4%, construction 1.8%, services 29.2%, industry 26.6%, agriculture 4.9%, tourism 26%
Commercial Bank of Palestine	5 million	*200	*1.6 million	100% WB
Arab Bank	*About 10 million	*500	2.5 million	WB: 70%, GS: 30%
PBC	14 million	52	0.9 million	Agriculture 33%, industry 15%, services 40% , commercial 12%
Total from Banks	**40.5 million**	**2,359**	**8.5 million**	
FATEN	3 million	5,466	1.9 million	Trading 40%, agriculture 27%, services 5%, production 28%.
YMCA	4.5 million	500	4 million	Vocations
ASALA	1 million	100 476 micro loans	0.8 million 114,000	NA
ANERA Arab Bank	4 million 1 million	351 205	0.8 million 230,000	Agriculture loans Women loans-all sectors
Care	$65,000	69	40,000	Agriculture/ Goat rising, trade, house maintenance, education and health.

UNRWA-West Bank UNRWA-Gaza	1.7 million 11 million	2,595 6,855	1 million 4.8 million	All sectors- different from program to program with the least for agriculture and the most for commercial and services
PARC	1.5 million	300	0.9 million	Until July 001. Agriculture 83% includes (raising animals, green houses & food processing), Commercial and services 17%. ANERA and the Arab Bank program
ACAD	0.5 million	312	0.9 million	North, Middle of West Bank and All Gaza Strip
Total from NGOs	**27.265 million**	**17,024**	**15.254 million**	
Grand Total	**67.765 million**	**19,383**	**24.115 million**	

* Because these banks did not provide the researcher with information on these items, estimates were made for calculation purposes.

The above table shows the following:

- The total fund available for micro and small lending in the West Bank and Gaza, including outstanding loans, **is approximately 67 million dollars** distributed between ***banks (40 million) and NGOs (27 million) dollars***. This amount is less by four million dollars than what was reported in Weidemann study of 1999. Desp[ite the new entry of several new micro finance programs, there is a decline by about six percent since 1999.
- The total amount of loans outstanding is ***about 24 million dollars*** representing approximately ***19,000 outstanding loans***. This amount represents ***only 36 percent of the supply available for small lending***.
- NGOs seem to have the largest share with 15 million dollars outstanding loans compared to 10 million dollars for banks.
- Loans provided by NGOs are significantly larger in numbers and smaller in amounts. NGOs have an outstanding number of loans at about 17,000 whereas banks' outstanding loans are about 2,300. These results show that NGOs are most likely to target the lower end of businesses (micro and for the most part group lending with very small loans) whereas banks tend to focus on small businesses.

C. Repayment rate and delinquency

During the last year (Sept. 2000 to Sept. 2001), the economic situation deteriorated and consequently credit programs faced real challenges. On one hand, the management of these programs tried to maintain performance with respect to loan provision and repayment and on the other hand to reduce the pressure imposed on small businesses. Repayment rates declined and portfolios at risk increased. The following table provides statistics on these indicators:

Table 52: Repayment and risk indicators during the Intifada

Name of Institution	Repayment rate	Default	Portfolio at risk	Write offs
Bank of Jordan	78%	NA	Moderate risk 100%	Zero
Bank of Palestine	92%	8%	No estimates	Zero
Jordan National Bank	75%	25%	Low risk: 55%, High risk: 20%, Doubtful risk 10%, Bad loans: 13% (of the 25% of the default payments)	13% of the default (3.2% of total)
Commercial Bank of Palestine	92%	8%	Low risk 97%, High risk 3%	2-3% of total loans
Arab Bank	75%	25%	Moderate 100%	Zero
PBC	NA	NA	NA	NA
FATEN	99%	0%	10%	$10,800
YMCA	55 to 60%	4%	5.5% high risk	Zero
ASALA Individual Group	 85% 97%	 20%	 $280,000, about 30%	Zero
ANERA Arab Bank	Gaza area: 95%, Jericho 75%, Women Loans 87%	0%	10%	Zero
Care	80%	20%	0%	Zero
UNRWA-West Bank UNRWA- Gaza	SSE: 60% MEC: 67% SSE: 50-69% MEC: 83% SGL: 89%	46% 49% 49% 50% 36%	20% 2.5 million	Zero Zero
PARC	85%	NA	NA	
ACAD	60%	47%	59%	12 % of outstanding

- With the exception of few institutions, most MFIs experienced a significant decline in repayment rates and an increase in portfolio at risk.
- Group lending programs were the least affected due to the nature of such lending and the small amounts lent.
- The small amounts written off are due to the rescheduling policy adopted by many of these MFIs.
- The low repayment rate and the increased portfolio at risk have impacted lending policy of these MFIs towards more conservatism.

D. Supply of loans (numbers and amounts per month)

The following table presents information on current lending activities:

Table 53: Current lending activities

Name	Number of loan applications per month	Number of loans/month	Amounts of loans /month	Women entrepreneurs %
Arab Bank	45	29	($145,000)	NA
Bank of Jordan	45	36	($50,000-70,000)	NA
Bank of Palestine	70	50	($5,000-7,000)	40%
Jordan National Bank	5	3	($37,000-40,000)	20%
Commercial Bank of Palestine	12	2	($10,000-15,000)	NA
PBC	25	15	($225,000)-(300,000)	6%
Total	**202**	**135 loans**	**$472,000-$577,000**	
FATEN	900	900	$400,000	100%
YMCA	20	7	$8,000	15%
ASALA	140	78	$75,000	100%
ANERA	30	15	$115,000	70%
PARC	2	2	$7000	100%
Care International	13	12	$2,857	100%
UNRWA (WB) UNRWA (Gaza)	350 950	200 500	$131,631 $370,000	6% 54%
ACAD	10	7	$26,065	NA
Total	**2,415 loan applications**	**1,721**	**$1,135,553**	
Grand Total	**2,617**	**1,856**	**$1,607,553-$1,712,553**	

- Total number of applications for loans per month is about 2, 617 with 92 percent for NGOs and the remaining 8 percent for banks. This significant difference suggests that NGOs are still lending more than banks under the Intifada conditions because they have to sustain operations while banks have many other products and savings that enable them to survive for long times.
- Loan approval is about 71 percent of loan applications. NGOs approval is about 71 percent while, banks approval is about 67 percent.

- Total amount of monthly credit provided to micro and small lending is about 1.7 million dollars per month, of which, about 1.1 million dollars comes from NGOs.

The researcher believes that both banks and NGOs, mostly banks and Arab Bank in particulars, may have provided exaggerated figures to leave an impression that they are still providing loans to businesses under current situation for public relation purposes. As such, the total supply per month might be significantly less than what reported.

E. Provision of loans prior to the Intifada

In order to find out if there is a difference between the supply of credit before and after the Intifada, banks and NGOs were asked to state the number of loan applications received and number of loans approved prior to September 2000, beginning of the Intifada. The following results were obtained:

Table 54: Lending prior to the Intifada

Name of institution	Average applications per month	Average approved applications	Amount (USD)
Arab Bank ***Program one*** ***Program Two***	 *100 40	 60 20	200,000 200,000
Bank of Jordan	200	200	420,000
Bank of Palestine	165	50	13,000
Jordan National Bank	90	50	400,000
Commercial Bank	50	10	100,000
****PBC**	NA	NA	NA
Total-Banks	*665*	*390*	*$1,333,000*
FATEN	1,100	1,100	570,000
YMCA	15	10	80,000
ASALA	35	15	140,000
ANERA	70	30	100,000
PARC	7	7	21,000
Care International	24	24	3,500
UNRWA (WB) **UNRWA (Gaza)**	600 1,400	300 770	300,000 770,000
ACAD	23	8	39,000
Total NGOs	*3,274*	*2,264*	*$2,023,500*
Grand Total	3,919	2,654	$3,356,500

**Estimated because the bank did not provide these numbers*
*** The program started during the Intifada*

- Total number of applications for loans per month is about 3,900 with 83 percent for NGOs and the remaining 17 percent for banks. Comparing these results to the results in table 40, it can be conclude that the number of applications decreased by one third during the Intifada and that the approval rate increased by about six percent. Given the current political situation, the approval rate would have been decreased and not increased as banks and NGOs claimed. This might be explained by the fact that banks and NGOs became more cautious and stricter in filling applications, only for good clients.

- Total amount of monthly credit provided to micro and small lending prior to the Intifada (prior to Sept 2000) is about 3.3 million dollars per month, of which, about 2 million dollars comes from NGOs. This amount is almost double the amount of the monthly disbursements during the Intifada indicating a drop of monthly actual supply by 50 percent.

F. Perception of demand for micro and small loans

When banks and NGOs were asked to answer the question regarding perceived demand for small and microcredit under current situation, answers were inconsistent. Two banks out of six believe that there is a big demand from small businesses, while the rest said that there is a demand, but it is very limited. In addition, banks and NGOs stated that the requested loan size has also decreased and ranges from $2,000 to $10,000. Furthermore, most indicated that the loans are requested for working capital more than other purposes.

Although two NGOs stated that the demand has decreased, the overwhelming majority of them believe that there is a demand and some others stated that the demand has increased. The rationale behind such increase is that an increased number of unemployed people exists, who would like to start a business to compensate for the loss of jobs in Israel and the local market. Therefore, the demand increase comes from two sources. The first source is new loans for new start-ups and the second is to finance working capital.

These answers a long with the previous results suggest that the demand for small loans may have had increased during the Intifada and this increase seems to be directed to NGOs more than banks. However, when scrutinizing the number of loans received, the approved loans and their amounts per month in tables 40 and 41, the real demand, expressed by number of applications, may have had decreased by about one third not because of demand increase but rather because of difficulties in obtaining and filling applications.

G. Measures taken under current situation

1. Measures and actions

The consequences of the political situation on economic activities have severely affected the ability of businesses to meet obligations towards lenders and suppliers. The high percentage of overdue receivables, the low repayment rates and the increased portfolio at risk have all pushed many banks and NGOs to slow down lending activities and take measures to minimize the risks of default and delinquency.

These actions have increased the cost of lending because of the decrease in interest revenues and the higher cost of due diligence. Prior to the Intifada, loan conditions and terms were less stringent than they are today. Examples of measures taken by most banks during the Intifada include:

- Requesting more collateral and guarantees such as the borrower depositing his or her monthly salary at the bank,
- Issuing loans only to specific sectors with low risk. The tourism and agricultural sectors are excluded.

Measures taken by most NGOs include:

- Requesting more postdated checks,
- Focusing on selection of borrowers who have good reputation,
- Spending more time on field work for selection and follow up,
- Focusing more on micro existing business than startup,
- Focusing on businesses whose market is small and limited to the surrounding area.
- Reducing loans disbursed as a result of the current situation,
- Asking for guarantors who receive their salaries through the bank (mostly government employees),
- Increase repayment period
- Loan amounts have been reduced and many MFIs have done rescheduling of loans.

2. Future plans

Most banks did not offer any suggestions or propose any kind of future game plan for coping with the current situation. This position, if true, may present an alarming signal regarding banks' involvement in micro and small lending and raises the question of stewardship of these programs, which are supported by donors, at least during the next few years.

NGOs interviewed, however, were more responsive in outlining future plans. Among the actions proposed are:

- Introduce new loan products or programs,
- Expand target groups,
- Implement some changes regarding loan purpose,
- Expand the geographical coverage of microlending,
- Increase the revolving fund amount,
- Introduce a new credit program for IT sector,
- Focus on saving & credit,
- Establish social security programs,
- Improve marketing program.

Some NGOs stated that their plans are frozen and that they are focusing on day-to-day operations to survive the difficult times. T

These results suggest that banks are more flexible than NGOs where they can freeze micro and small lending and divert operations towards many other credit facilities while NGOs have no other choice, but to continue operations, otherwise shutdown.

H. Problems and constraints under current situation

The political instability and the Israeli measures have significantly influenced normal lending activities in the West Bank and Gaza. The economic deterioration as well as the imposed Israeli measures on the movement of people and goods have severely affected the conduct of normal business. Credit officers' mobility to search for clients, follow up on borrowers and monitor activities has become very limited. Borrowers' ability to visit MFIs was significantly reduced and those who have loans to repay are unable to pay on time. The types of problems and constraints are summarized below:

1. Restricted movement creates due diligence, follow up and collection problems,
2. Delay in repayments are caused both by cash flow problems and movement difficulty,
3. Percentage of repayments decreased,
4. Inflexibility for conducting training for field loan officers (FLO),
5. The lack of an efficient legal system have severely influenced performance on collections and created default and delinquency problems,
6. The purchasing power of people deceased and as a result impacted the scope of sales and revenues and cash flows.
7. Most borrowers cannot reach banks to deposit their repayments,
8. Business becomes more risky,
9. Many social problems created collection problems,
10. Access to borrowers (potential), difficulty of transportation and follow up on projects.
11. Decrease in the ability of borrowers to save,
12. Decrease in the total number of women entrepreneur who are willing to start a new business,
13. NGOs which have programs with banks either on joined projects or using them as transaction windows face difficulty in dealing with them as they do not produce timely good reports on lending performance,
14. Finding guarantors became very difficult to find for the clients,
15. The Israeli closure policy affects the clients' ability to market their products or reaching the bank to deposit the due payment,
16. Some agricultural projects were damaged by the Israeli tanks; hence borrowers were unable to repay the loan.

I. Recommendations to maintain credit and reduce risk

Banks and NGOs provided recommendations to alleviate part of the consequences resulting from the current political situation. These are as follows:

1. Increase loan term and focus more on loan purpose,
2. Careful analysis of businesses according to sector potential,
3. Impose more restrictions on guarantors such as deposit of guarantor salary at the bank,
4. Increase budget for facing risky loans and default payments,
5. Increase cooperation between banks and NGOs through exchange of information about borrowers,
6. Focus more on specific sectors
7. Focus more on legal issues with the support of PNA,
8. Focus on collection,
9. Select quality clients with good guarantors,
10. Increase field visits to borrowers' places of work,
11. Focus on productive agricultural projects,
12. Donors should support those who have clear visions as some NGOs are harming the industry through their lack of knowledge and experience in the field,
13. Develop policy to punish problematic borrowers who do not pay and motivate who pay on time,
14. Focus on client selection criteria,
15. Concentrate on existing projects rather than new projects.

V. CONCLUSION

The analysis of the survey results suggests a number of conclusions about the current demand and supply of micro and small credit.

The survey confirms what earlier studies have shown: that credit from any source other than family has not been a common factor in the start up and maintenance of most micro enterprises. Given political instability, market fluctuations and the absence of formal credit available to this sector in the past, lack of start up credit from any formal institution is not surprising.

The current political situation has severely affected economic activities in the West Bank and Gaza. The demand for credit would most likely come from the need to finance existing operations rather than the expansion of existing enterprises. However, the general belief among businesses interviewed is that credit may not be available under current political situation with some variations according to credit source.

With the limitation of the results of the micro enterprise survey in terms of coverage and sample, it revealed however, important characteristics and statistics about the informal sector. The results show that there is approximately 65,000 micro establishments. These results show that a significant percentage of businesses want to borrow; small and micro loans. The scope of this unfulfilled demand leads to believe that the degree of outreach is still minimum and that MFIs should intensify and focus their efforts to increase the depth and width of credit coverage.

For the most part, businesses would take loans with interest and a significant proportion would obtain a loan from Islamic banks. The overall average amount requested for small loans was $13,593 while it was $800 and $2,900 for two categories of micro loans. However, the largest proportion of demand comes from the low-end loans, les than $5,000. Unlike previous studies, which showed that the most part of businesses would like to borrow to finance fixed assets, under this political situation, the tendency among businesses is to finance existing operations rather than expansion. Most respondents who wanted loans wanted them for long periods of time.

Unlike microenterprises, significant proportion of small businesses interviewed did not show interest to borrow for two main reasons. The first was obviously for ideological reasons where some Moslems interviewed did not show interest in obtaining a loan with interest rate Because the Islamic Sharia forbids taking or paying interest on money (Usuru or Riba)[*]. The second largest group with no interest to obtain loans was those who do not need loans.

The demand analysis concluded that the potential demand for credit in the WBGS based on previous assumptions is approximately 140 ***million dollars for small loans***

[*] Islamic Sharia has its own rules of financing and allows profits for lenders in its different forms.

and about 37 million dollars for micro loans. Although the demand for credit seems to be significant, the penetration of credit is still low.

The total credit available for micro and small businesses is about 68 million dollars. However, the value of outstanding loans is about 25 million dollars, representing short supply compared to the lower end of 50 million dollars demand. These results may suggest that the essence of the short supply is not indeed the lack of credit availability, but rather the actual lending and penetration rate of these market segments. Under current situation, it is obvious that supply became more stringent than before, contrary to what suppliers claimed during interviews. The relatively weak performance indicators such as repayment rates, default and portfolio at risk may have had enhanced conservatism of suppliers.

This also evident when analyzing demand and supply per month. If the loan approval of 71 percent of loan applications is accepted, it means that demand exceeds supply by about 30 percent. This difference is not due to unavailability of money, but rather to the conservative credit policy adopted by most banks and NGOs. In conclusion, demand for loans may have increased because of cash problems, but supply has decreased because of the new risks associated with the political developments.

Although the current and potential demand for small and microcredit is higher than the available supply, the served demand is much less than the available supply. Therefore, the challenge that remains is how to make it more accessible while maintaining the quality of loan portfolio?

On the part of donors and supporting programs, risk-sharing projects may encourage lenders to lend more and on the part of lenders proactive marketing and good selection, exchange of information and sharing among lenders may reduce the risks of default and delinquency. Development of new focused loan products may also contribute to increasing supply and fulfilling unserved demand. Furthermore, the development of borrowers' insurance programs may also reduce the risks of default and motivate lenders to adopt more open lending policies. Moreover, the improved management information systems within banks and NGOs would provide better management and monitoring results than what exits at present. Training of loan officers and motivating them would also increase efficiency and effectiveness of these programs.

In conclusion, no matter what measures taken under current political situation, risks will continue to exist as long as the economic situation deteriorates and the business conduct is costly. Therefore, under current conditions, new funds for credit may not be a priority, but rather the efficient utilization of existing fund should be the focus.